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REPORT

of the

ROYAL COMMISSION

on

PRICES



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ROYAL COMMISSION ON PRICES

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Accountant.

Right Hon. Louis S. St. Laurent, M.P.,
Prime Minister,
Ottawa.


Dear Mr. Prime Minister,

In accordance with the instructions contained in Order in Council P.C. 3109 of July 8th, 1948, I am conveying to you herewith for transmittal to His Excellency the report of the Royal Commission on Prices which has now terminated its activities.

Yours faithfully,

C. A. CURTIS,
Chairman.

Ottawa, March 18, 1949.



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Certified to be a true copy of a Minute of a Meeting of the Committee of the Privy Council, approved by His Excellency the Governor General on the 8th July, 1948.

The Committee of the Privy Council have had before them a report, dated 7th July, 1948, from the Right Honourable W. L. Mackenzie King, the Prime Minister, representing:

That, by a resolution of the House of Commons passed on the 10th day of February, 1948, a Select Committee of that House was appointed to examine and to report from time to time as to:

- (a) the causes of the recent rise in the cost of living;
- (b) prices which have been raised above levels justified by increased costs;
- (c) rises in prices due to the acquiring, accumulating or withholding from sale by any persons, firms or corporations of any goods beyond amounts reasonably required for the ordinary purposes of their businesses;

That the Committee so appointed has, in a report to the House of Commons, recommended that the Governor in Council consider the immediate appointment of a Commission under the Inquiries Act to continue the work initiated by that Committee;

That the House of Commons, on June 28, 1948, concurred in that report; and

That it is, therefore, expedient to cause inquiry to be made into and concerning the matters hereinafter referred, such matters being connected with the good government of Canada.

The Committee, therefore, on the recommendation of the Prime Minister, advise,—

1. That

Professor C. A. Curtis, Queen's University, Kingston, Ontario,
H. C. Bois, Esquire, Montreal, P.Q.,
Mrs. T. W. Sutherland, Parksville, B.C.,

be appointed Commissioners under Part I of the Inquiries Act, Chapter 99, Revised Statutes of Canada, 1927, to continue, after familiarizing themselves with the work initiated by the Special Committee on Prices appointed by the House of Commons, the inquiry into and concerning price structures, factors leading to price and cost increases and increased profits margins in Canada, paying particular regard to essential commodities and services in common daily use;

2. That the said Commissioners adopt such procedure and methods as they may, from time to time, deem expedient for the proper conduct of the inquiry and sit at such times and in such places in Canada as they may decide from time to time;

3. That the said Commissioners be directed to make such interim reports to the Governor in Council, from time to time, as they may consider advisable; and in any case to present a general report to the Governor in Council not later than the opening of the next session of parliament;
4. That when, pursuant to the powers conferred by section eleven of the Inquiries Act, the said Commissioners have authorized and deputed any qualified person as a special Commissioner to inquire into any matter within the scope of the aforesaid inquiry as may be directed by the said Commissioners, any person so deputed be authorized to exercise the same powers which the Commissioners have to take evidence, compel them to give evidence, and otherwise conduct the inquiry;
5. That, pursuant to the powers conferred by section eleven of the Inquiries Act, the said Commissioners be authorized to engage the services of counsel to aid and assist them in the inquiry and to engage the services of such technical advisers, or other experts, clerks, reporters and assistants as they deem necessary or advisable;
6. That the said Commissioners be directed that a record should be made of all the evidence given before them or before any special Commissioner in the course of the inquiry; and
7. That Professor C. A. Curtis be Chairman of the said Commission.

“A. D. P. HEENEY”
Clerk of the Privy Council.

His Excellency Field Marshal The Right Honourable The Viscount Alexander of Tunis, K.G., G.C.B., G.C.M.G., C.S.I., D.S.O., M.C., L.L.D., A.D.C., Governor General and Commander in Chief of Canada.

May it Please Your Excellency:—

Pursuant to the terms of Order in Council P.C. 3109 of July 8, 1948, we, your Commissioners appointed under Part I of the Inquiries Act have the honour to submit herewith our Report.

We have held 77 public hearings and have examined 179 witnesses during the course of our inquiry. Because of our wide terms of reference, and the limited time at our disposal we held all our hearings in Ottawa. Witnesses were called, however, from trades and industries located in every province of Canada and we therefore believe we have acquainted ourselves with local trade practices insofar as has been possible.

In addition to summoning representatives of business and industry for the more precise purpose of investigating pricing practices, costs, profit margins and mark-ups, etc., we invited twelve national organizations to present briefs. These organizations, covering wide fields of social and economic activity sent to Ottawa representatives who appeared before us in public hearing and whose views, diverse as they often were, contributed much to our appreciation of the subject under inquiry.

We did not confine ourselves to the information elicited at our public hearings. We consulted informally a number of private individuals and government officials who furnished us with pertinent and valuable material.

In view of our concern, as specified in our terms of reference, with the activities of The Special House of Commons Committee on Prices, we have considered in this Report the evidence presented before that body as well as before ourselves. A study of the industries investigated by The Special Committee is included in Volume III.

We wish to acknowledge our appreciation and thanks to our Secretary, Mr. A. G. S. Griffin, who carried out his duties in a competent and effective manner. We also express our indebtedness to our Counsel, Mr. H. A. Dyde, K.C., whose able advice and assistance have been invaluable to us. To our Accountant, Mr. Marcel Caron, C.A., of Clarkson, Gordon & Co. we are grateful for his capable efforts and guidance. We acknowledge with thanks the co-operation of several government departments in making available to us personnel for various special duties. Finally to all the members of our staff we express our very particular gratitude for their faithful and assiduous labours.

INTRODUCTION

In the main, this is a report on "the causes of the recent rise in the cost of living". It is an attempt to answer the question:

Why has the cost of living of a representative Canadian family, after being virtually stabilized during the final and most intense phases of World War II, increased by nearly one-third as measured by the cost-of-living index since the conclusion of hostilities?

While the impact of rising prices has been felt most sharply by consumers, especially those living on relatively low or fixed incomes, it is of interest to note that national groups representing agriculture, labour, manufacturers and retailers, as well as consumers, expressed grave concern to us over the recent rise in prices and over the "peaks and valleys" in our economy of which the upswing of inflation is but one phase.

NATURE OF INQUIRY

Broadly speaking, there are two ways of conducting an inquiry into rising prices and we used both. The first, and perhaps obvious way is to investigate the prices being charged for services and for individual goods such as bread, butter and shoes. Like the Special Committee on Prices of the House of Commons, we followed this line of inquiry and gathered a good deal of useful and significant information which could not have been obtained in any other way. We called before us representatives of manufacturers, wholesalers and retailers, and obtained detailed information as to costs, margins and mark-ups and the over-all profit position of individual firms in each industry investigated.

But an investigation along these lines, however thorough, cannot, by its very nature, yield a full and satisfactory explanation of a general rise in the cost of living. This may be illustrated by reference to conditions during the middle 1930's. At that time business was in the doldrums, prices low and unemployment widespread. Inquiry into each case of poor business, low prices and lack of a job would have revealed a different set of circumstances. But we know that whatever the particular circumstances of each case, the underlying cause of most of the trouble was lack of profitable markets, lack, in other words, of effective demand.

We therefore studied the problem from a wider point of view. We sought the common factors, the generating forces causing the upward movement of prices.

As a result, this report is a blend of the particular and the general. It deals with the rise in the price of bread as it does with the rise in price of many other articles in common use, not in isolation, but in relation to what was going on elsewhere in the economy.

The analysis of the economic factors underlying the general price rise is presented in Volume II of this Report. The detailed studies of the ten industries or commodities investigated by us and by the Special Committee on Prices—bread, butter, fruits and vegetables, meats, primary textiles, fertilizers, hides and leather, shoes, secondary textiles and lumber—appear in Volume III.

In this first volume of the Report, we present a brief summary of the analysis contained in Volume II and of the ten industry studies in Volume III together with some general observations and suggestions by way of conclusion.

Our inquiry led us to make special studies of a number of highly important and difficult questions. It was clear from the outset that World War II had more to do with the recent rise in the cost of living than any other single factor. We therefore found it essential to review in some detail the methods by which the war was financed and the effect of fiscal and monetary action in the post-war period. Since Canada is so dependent upon trade, the influence of external factors upon the Canadian price level was examined in some detail. Because of its direct and indirect effects upon prices, we attempted to analyze and appraise the impact of the great upsurge in demand for new plant and equipment, which has come to be known as the investment boom.

Perhaps the most difficult part of our task was to form some judgment as to the results of price control during both the war and post-war periods. Why was price control so successful in wartime? Could it have been maintained longer into the post-war period?

We then turned to some special aspects of rising prices. It was suggested to us that one of the main causes of rising prices was higher profits. On the basis of the information available we tried to arrive at some tentative conclusions on this point. On the same basis we looked into the relationship between wages and prices and considered the effect of higher agricultural prices upon prices in general.

The evidence presented to us by the representatives of various industries and by the representatives of consumers, prompted us to give some attention to the practices followed in setting mark-ups and margins and to the extent to which restrictive business practices had contributed to the recent rise in prices.

These special studies will be found in Volume II. Here we give only our general findings.

SUMMARY OF VOLUME II

ECONOMICS OF RISING PRICES

We are concerned in this Report with a general rise in prices which is commonly called "price inflation" or just "inflation". How does inflation come about? Briefly, it is a symptom of too much spending in relation to the available supply of goods and services, or, to use an overworked but expressive phrase, it is a case of "too much money chasing too few goods".

Spending can increase without causing a significant rise in prices. For example, in a period of recovery from a depression, increased spending will call forth new production as idle men and other productive resources are re-employed. But once full employment has been attained, the attempt to increase spending by more than the increase in average output per worker is bound to raise the general level of prices.

Consider, for example, what happens when, as at the end of a war, business men decide that the time has come to embark on a program of plant expansion. With savings or borrowed money they try to buy additional labour and materials to do the job. Assuming full employment and no increase in productivity, the necessary labour and resources must be withdrawn from some other use.

But on the other hand, spending by business men for capital investment puts money into the pockets of wage and salary earners and business men who work on the projects or supply the materials. So unless adequate counter measures are taken, or there are some other offsetting influences, the chase of money after goods begins. Business men, intent on expanding their productive facilities, endeavour to bid resources away from other uses and from each other. Everyone's income and ability to pay being just as great as before, there is resistance to the transfer of resources. The resulting competitive bidding-up of wages and prices adds to the incomes and to the general willingness to spend. Thus the spiral of rising prices moves upward.

Or, consider what happens when prices rise in countries from which we buy or to which we sell. What this really means is that non-Canadians want to buy more of our goods or want to keep more of their own goods at home, either because their demands have risen or their alternative sources of supply have been reduced. The basic situation is no different from an internally generated inflation, except that the competition for labour and other productive resources is on a world-wide scale rather than on a national scale. These two illustrations show how difficult it is to blame any particular individual or group for an inflationary price rise.

The business man can hardly be blamed for attempting to increase his productive facilities to meet the demand. Yet while labour and other resources are being used to build new machinery and factories, they cannot be used to make shoes and build houses. The business man who sells for

what he believes the market will justify providing he is not guilty of restrictive trade practices, is following legitimate business practice. The farmer who sells at the going market price is in much the same position.

Wage and salary earners, too, are following a natural enough course in striving to increase their earnings, for, on the one hand, they are faced with rising costs of living, and, on the other hand, they believe employers are well able to afford a higher wage bill. Consumers for their part have a normal human desire to maintain and if possible raise their standard of living. For some of them increased spending is not a matter of choice, but of necessity.

Even larger government expenditures may be unavoidable. The salaries of civil servants must be adjusted to the market. New roads and bridges and public utilities may be necessary. The international situation may call for foreign aid and large defence expenditures. It can be argued that family allowances, increased old age pensions, veterans' benefits, etc., are inflationary, but from other points of view they are wholly justifiable and desirable expenditures.

When the world price of cotton goes up, Canadians must pay more or do without. The same is true of nearly all imported goods. So it is with exports. When United States buyers are willing to pay more for newsprint or cattle, Canadian producers may expect consumers at home to pay equivalent prices.

The fact is that a serious rise in prices can occur even though everyone works efficiently and behaves in what seems to him or to her to be a perfectly reasonable manner. There may be no villains in the piece, only honest, hardworking citizens.

Rising prices can be cured only by removing the excess of demand over supply. Any other proposed remedy, no matter how different it looks can succeed only if it somehow or other increases the supply of goods or decreases the rate of spending.

While everything possible should be done to increase output by removing restrictions on trade and improving productive efficiency, the results are bound to be relatively small during a period of full employment. A serious inflation can be held in check only by reducing the rate of spending.

This is not only a matter of curtailing what might be called unnecessary expenditure. It is also likely to include the curtailment of expenditure which most of those concerned consider necessary and certainly desirable. For this reason too much reliance cannot be placed on voluntary restraint to check a strong inflationary movement. Those who should exercise the restraint find it difficult to believe that their particular activities, which from their particular point of view appear quite reasonable, should be curtailed. Hence, the people as a whole acting together through the government must agree to apply restraints of general application.

Government policy can operate to reduce the volume of spending by:

1. Levying higher taxes which have the effect of leaving less money in the hands of the public for spending.
2. Discouraging borrowing and the raising of capital, e.g., by higher interest rates and by putting indirect pressure on the banking system to curtail lending.
3. Encouraging saving and the deferring of expenditure, e.g., by government bond selling campaigns and by postponement of its own capital expenditures.
4. Controlling prices and supplies and thus making it illegal for people to spend as much as they would otherwise have done.

All four methods are extremely difficult to apply and are bound to encounter opposition. While there is widespread support for the idea of halting an upward movement in prices, there is a good deal less support for the particular measures that have to be taken to put the idea into practice.

Taxes are a case in point. It can be demonstrated that in an inflationary situation additional taxation of the appropriate kind does not really impose any additional burden on the community for it merely takes away money that would otherwise have gone into paying higher prices. Nevertheless, there will always be resistance to taxation if only because of the feeling that it would be very pleasant for one if there were only other people who were taxed to keep spending down.

PRICES AND INCOME SINCE 1939

At the outbreak of war in September, 1939, conditions in Canada were far from prosperous. There had been some recovery from the lowest point of the depression but unemployment was still widespread, amounting to perhaps 17 per cent of the civilian labour force. Construction, both of new industrial plant and of housing, was at a low ebb. Agriculture was in a position of serious disequilibrium.

The situation then existing was one to which few people would wish to return. Since a price level is to a considerable extent the result of prevailing economic conditions, the Canadian price level in 1939, should not be regarded as an ideal against which to assess the present price level.

From September, 1939, to the date of this Report the cost-of-living index¹ (which we found to be a useful though not, a perfect guide to the effect of changing prices on all family budgets) has gone up 58 per cent. During the inflationary period which accompanied and followed World War I the cost of living rose by 90 per cent.

At the same time there has been a very great improvement in the volume of output and in the average standard of living. Under the impetus of wartime demands and post-war accumulated needs the Gross National

¹A description of the cost-of-living index is included in Volume III.

Product increased in value terms by 139 per cent between 1939 and 1947, and it is estimated that there was a further large increase in 1948. After allowing for price increases there has been a tremendous expansion in real output of goods and services. In terms of constant dollars having a buying power based on prices during the years 1935 to 1939, the Gross National Product per capita was \$500 in the prosperous year of 1928, fell to \$300 at the low point of the depression in 1933, climbed back to \$500 in 1939, and reached an all-time high of \$800 in both 1947 and 1948.¹

On the basis of the statistics available to us we estimate that the actual quantities of goods and services purchased by consumers in 1948 were 69 per cent larger than in 1939.

We put these facts down at the outset so that the rise in prices will be seen in perspective. Some recovery in prices from the 1939 level was probably desirable, and some adjustment as between various kinds of prices was certainly desirable. Nor should the very real improvement in output and average living standards be overlooked.

Even so the rise in prices which did occur between 1939 and 1948 was of major proportions and brought hardship to many Canadians whose incomes did not rise at the same rate. Why was there such a major rise in prices and could it have been avoided?

Price Control and Rationing

Looking back at the war period, we are impressed by the remarkable stability of consumers' prices. From September, 1939, to November, 1941, the cost-of-living index rose by 15 per cent and from November, 1941, to September, 1945, by only three per cent. There can be little doubt that this degree of stability would not have been achieved without the timely introduction of the over-all price ceiling late in 1941, and the efficient, determined and imaginative way we believe it was administered by the War-time Prices and Trade Board. But we do not believe that the price ceiling by itself could have prevented prices from rising. A price ceiling is like a lid on a boiling pot. It can be held down only if the pressure within the pot does not become excessive.

Therefore, although for reasons which we give elsewhere, it would have been impractical to use fiscal and monetary measures with sufficient force to prevent prices from rising under the conditions that existed in Canada in wartime, they were an indispensable part of the stabilization program. The high rates of individual taxation necessary for war purposes helped to keep consumer spending down. Taxes on corporations, particularly the excess profits tax, took much of the profit out of war and thus helped to reduce the pressures that would otherwise have arisen from labour for a larger share in the gains and from Canadians generally for relief in individual income tax.

Although wages were never held under a rigid ceiling, a substantial degree of wage and salary control was maintained and seems to have been

¹Figures given to nearest hundred dollars. See Table 6, Chapter 2, Vol. II, *The Course of Prices and National Income*.

indispensable. It is significant in this connection that except on rare occasions, wage increases were not recognized during the period of the over-all ceiling as justification for the payment of subsidies or for price increases. Export controls, import subsidies and foreign exchange control too were indispensable. Without them a sufficient supply of essential goods could not have been kept in Canada and rising prices for imports would soon have made the domestic ceiling untenable. Even so, the evidence presented to us and our own investigations have led us to the conclusion that it would have been exceedingly difficult, if not impossible, to hold the line in Canada, had it not been for the timely control of prices in the United States early in 1942. It should not be overlooked, too, that although the over-all ceiling was maintained more or less intact at the retail level for some four years, there was, in fact, a considerable increase during that time in returns to Canadian producers, made possible by the payment of domestic subsidies on a large and rising scale.

Over and above all else we are convinced that the lid was kept on largely because the people of Canada were determined to keep it on. Persuaded by a skilful and extensive publicity campaign as to the dangers of inflation and the purpose of the price regulations, they held themselves in check and they held each other in check. The retention of the price ceiling became an integral part of the war effort, or as one witness put it "the public support of price controls was a patriotic duty".

There may be some argument as to whether an over-all price ceiling was the right policy or whether it would not have been better to have permitted somewhat greater flexibility. For example, a less rigid policy might have made post-war adjustments less difficult. But this is arguing after the event. In 1941, we were engaged in an all-out war effort and it was prudent public policy to anticipate the worst and to prepare for it. Nonetheless, the very success of the over-all price ceiling did add to the post-war difficulties of restoring freedom of trade.

We considered whether or not, in view of the rapid rise in prices following decontrol, the wartime price ceiling should have been continued longer. Because of the representations and evidence of groups speaking for a significant proportion of our people requesting a reimposition of controls and stating their belief that there should not have been decontrol at all, it constituted a most pressing matter for our examination, and posed one of the most difficult questions for us to answer.

It seems to us that the vital issue was whether it would have been in the general interest to attempt to hold to a price line that could only have been held by a degree of government intervention in the economic life of the country without parallel either in war or peace.

To have held prices at the 1941 level, would not have meant merely a continuation of the kind of intervention that had been necessary to hold the price ceiling in wartime. For while the ceiling held prices down below the levels which would have prevailed under open market conditions in wartime, it must be remembered that Canadian prices in fact never di-

verged very far from United States prices which were also under control and there was a reasonably close relationship between internal costs and prices. At the end of the war, however, both import and export prices and internal costs began to move upward and away from the Canadian war-time ceiling level. As one expert witness said:

"... even if the price ceiling policy had been continued in full effect there would almost certainly have been a very considerable rise in prices. To have held the old ceilings in the face of increases in both domestic and import costs would have involved enormous increases in total subsidy payments and at the same time could not have avoided hampering and restrictive effects on production."

To put it bluntly, the continuation of the war-time price ceiling into the post-war period would have fixed on the country a structure and level of prices quite remote from reality one which could only have been maintained by the most detailed and elaborate kind of government planning and direction. At one time there might have been reason to hope that as war-created shortages disappeared, demand and supply would come into balance at price levels not far above or even at, or below ceiling prices. But events turned out otherwise.

We find ourselves in agreement with the decision not to continue and augment the wartime controls. We are satisfied that the preservation of 1941 prices far into the post-war period under totally different domestic and world conditions would have been not only impractical, but economically highly undesirable.

Could another ceiling have been established and held at a somewhat higher level? We have considered this possibility and it seems to us that there would have been one well-nigh insuperable obstacle. That obstacle would have been the establishment of a new over-all ceiling in the immediate post-war period before prices had settled down at an equilibrium level. The 1941 price ceiling adopted a relationship in the pricing system which had been established in the market. In a period of inflation the process of adjustment of prices and costs is rough and its continuity is marked by uneven pushes and pulls. The actual setting of every price in the economy is the more difficult in a period of inflationary unbalance because in price setting it is first necessary to determine an economic balance of every factor by artificial means rather than by the normal process of adjustment of supply and demand.

To have reimposed the ceilings after the war would have involved the refixing of prices at every step of production and distribution at a level so unrelated to the realities of the economy that their use in the post-war period would have been wholly impracticable and undesirable. Moreover, in a peace-time economy there could be no discrimination in price setting between essential goods and luxury goods, or essential services and luxury services. Also every wage and every salary would have to be set and controlled. Perhaps these measures could have been adopted to the satisfaction

of both consumers and producers, but we very much doubt it. In any case, unless the new ceiling had been fixed at levels reasonably close to the levels which would have been established on the open market, the degree of government intervention might not have been much less than if the original ceiling had been retained.

We considered also the serious administrative difficulties in operating over-all price controls in peacetime. Briefly these are:

- (a) An over-all price ceiling produces a large number of extremely complex problems. If the system is to function, these problems must be solved quickly, fairly, and efficiently. This implies a fairly large and extremely competent staff of experienced officials. During war-time such a staff was obtained largely by borrowing senior officials from industry and trade, because personnel with the necessary experience could not be obtained elsewhere. In peace-time conditions private companies could not be expected to continue to lend their top officials to the government and the government could not attract these men to its service permanently unless it could offer permanent employment and could pay salaries on a scale much higher than those now being paid by the government. Without a competent staff, inefficiencies of administration are inevitable.
- (b) Continued acceptance of controls by the trade and by the general public could not be expected without an extensive educational campaign explaining both the need for the controls and the details of the regulations. As the Chairman of the Wartime Prices and Trade Board said in his testimony before us, such a campaign is "really indispensable" in obtaining public compliance. It does, however, cost a lot of money, and in peacetime might well be identified with political propaganda.
- (c) Experience since the war has shown in many instances, an unwillingness on the part of the courts to impose on those who break the regulations a penalty sufficiently large to deter would-be offenders.

Whether or not the actual process of decontrol followed was in every respect the best under the circumstances is a matter of judgment. In our opinion it was wise to move gradually rather than to remove all controls at once, both to lessen the shock of adjustment and with the hope that demand and supply might come into better balance before the process was complete. There undoubtedly was a point, however, beyond which the retention of particular controls over prices on the 1941 base while other prices were free would have produced serious inequities and distortions.

Two controls related to, although above the 1941 ceiling, are still in effect, namely, those on house rents and sugar, and a few have been re-imposed in the post-war period of which the ceilings on bread, flour and butter and mark-up controls on certain imported fruits and vegetables are the most important. A consumers' subsidy is also being paid on flour.

The fact that these controls do exist led us to make inquiries as to the practicability of some form of selective price control rather than over-all price control during the post-war period.

As we see it, selective price control may be justified under exceptional circumstances for a temporary period. It may, for example, be justified by a temporary restriction of imports for exchange conservation purposes which, if allowed to affect prices, might result simply in a fortuitous profit to domestic producers and (if some imports are permitted) to importers. Selective price control, combined with subsidies, may also be justified as a means of slowing down the wage-price spiral. In specific cases of acute shortage of vital commodities direct controls may be necessary to ensure that the scarce supplies are directed where they will best serve the national interest.

Except under such circumstances it is doubtful, however, if selective price control has much to commend it in ordinary times. It is bound to be discriminatory. It is extremely difficult and complicated to administer. Most important of all, and particularly if subsidies are paid on the controlled goods, selective controls are more likely to augment the inflationary gap between demand and supply than to reduce it. If a general attack on inflation is to be made, the weapons should, in the main, also be general, directed to bringing the flow of money available for expenditure into equilibrium with the supply of goods and services available for purchase.

External Influences

That there is a connection between Canadian and foreign price levels is obvious enough. What we have tried to establish is the closeness of the connection and to what extent it is a necessary connection. In particular we are concerned with the answers to two questions:

1. To what extent have Canadian price trends followed or deviated from price trends in other countries, particularly the United States, and for what reasons?
2. Under what conditions can Canadian prices be held down while prices in the United States and elsewhere are rising?

Foreign prices affect Canadian prices most directly through the purchase by Canadians of goods produced outside the country and through the impact on domestic prices of the prices received by Canadians for the goods they export.

As an indication of the importance of imports we think it likely that the import content of goods purchased by Canadian consumers is around 30 per cent; for capital goods and equipment purchased by business men the figure may be even higher.

The list of goods which Canada buys abroad is so comprehensive and varied that only a few of the more important items can be mentioned here. For example, ninety per cent of the petroleum used in Canada in 1947 was imported. Two-thirds of coal burned in Canada, including all the anthracite

coal used, is imported. All the cotton and most of the wool, the basic components of most Canadian clothing, come to us from abroad. Fresh fruits and vegetables in the winter season, citrus fruits the year round, and a host of manufactured goods from automobile parts and automobiles to complex electrical machinery all form an integral part of Canadian consumption habits and Canadian productive processes.

If an increase in the price of imports may be said to have a "pushing" effect on Canadian prices, then the prices which can be obtained abroad for Canadian goods may be said to exert a "pulling" effect. But since the bulk of the goods that Canada produces for export are concentrated in a few products which have a limited sale within the country these direct effects of export prices are probably not as great as the direct effects of import prices.

The effect of export prices upon domestic prices can also be modified more readily than the effect of import prices. Whereas insulation of the Canadian economy against higher import prices requires the payment of subsidies, the direct effect of higher export prices can be offset by export embargoes which prevent foreign demand from draining away domestic supplies, by bulk contracts which may fix the export price at levels below world prices and by export controls combined with price control.

Export prices are less likely to follow United States prices closely than are import prices, since the proportion of exports sold to the United States is smaller than the proportion of imports bought from that country, and since the principal United States purchases are newsprint and woodpulp which exert relatively little direct influence on Canadian price levels. However, during the past year the intensification of Canada's efforts to expand exports to the United States, and the greater diversification in those exports, have resulted in closer relationship between Canadian export prices and the United States price level.

It is doubtful whether the closely related movement of Canadian and United States prices can be entirely accounted for by the actual interchange of goods between the two countries. Other less obvious influences are at work. It does not, for example, require an actual shipment of goods across the border to bring price trends into line in the two countries. The mere possibility that such a movement might take place is often sufficient.

In addition to the direct price increases resulting from the higher price levels prevailing abroad for exported products, the bidding of Canadian exporters for factors of production have raised wages and prices of materials generally in all industry. In this way, for example, prices under the British cheese contract have affected the price of butter consumed entirely in Canada. These indirect effects of higher export prices are matched on the import side by the effect of higher prices on wage demands, which in turn produce secondary effects on the price structure and on the prices of competing or substitutable domestically produced goods.

The influence of proximity is another intangible which cannot be overlooked. The influence of the United States has permeated the thinking of Canadians in almost all fields of business and economics.

Having these facts in mind, let us look at the course of prices in Canada in comparison with prices in the United States. Following the fixing of the Canadian dollar at a discount of 10 per cent below the United States dollar at the outbreak of war, wholesale prices tended to rise somewhat more rapidly in Canada than in the United States. The situation was reversed following the introduction of the over-all price ceiling in Canada in the autumn of 1941. The more rapid increase in United States prices ceased, however, after controls were imposed in that country in 1942 and for the remainder of the war the difference between the two indexes remained approximately the same as in 1942.

The Canadian wholesale index which had been at approximately the same level as the United States wholesale index when the war began, was between three and four points higher when it ended. That the increase in Canadian price levels was less than one might expect from the Canadian-United States dollar exchange rate may possibly be attributed to the superior efficacy of Canadian controls and related fiscal policy, but if United States prices had risen more sharply, ours would probably have been somewhat higher too. As we have said before, it would have been exceedingly difficult, if not impossible to hold the line in Canada had it not been for the timely control of prices in the United States early in 1942.

The cost-of-living indexes showed a wider variation during the war period which suggests that the Canadian government's efforts in this field met with more success. Some of the burden of price increases in imported necessities was shifted from the low-income group to the population as a whole through the greater use of subsidies.

The first real test of whether Canada's price level could be insulated from increases in United States and world prices came in the summer of 1946, when controls were lifted in the United States. From May, 1946, to March, 1947, the United States wholesale index increased by 35 per cent and the consumer price index by 19 per cent. During the same period the Canadian wholesale index increased by only 10 per cent and the cost-of-living index by less than six per cent.

If it is true that United States prices have a significant influence on Canadian prices, how could such a wide divergence occur in so short a period? Our investigation suggested the following explanation:

1. The government took action to moderate the effect of United States price increases by appreciating the Canadian dollar to parity with the United States dollar, by retaining price controls and subsidies on both imported and domestic commodities and by retaining embargoes on the export of scarce products.
2. Prices of the principal Canadian imports from the United States showed on the whole a much lower rate of price advance in the ten

months May, 1946, to March, 1947, than did United States prices generally.

3. Partly as a result of the bulk contracts on wheat and other commodities to the United Kingdom, prices of Canadian goods sold for export increased by only 14 per cent.

Since 1947 Canadian prices have risen much more rapidly than United States prices. Could Canadian prices have been held down or were the forces tending to bring prices in the two countries together too great to be harnessed without at the same time bringing about a degree of state intervention incompatible with the functioning of a free economy in peacetime? This is a matter of opinion, but we are convinced that, in view of the intimate relationship between the economies of the two countries, prices in Canada could only have been insulated by an elaborate and continuing system of export controls or by a government monopoly of selling and by a very complicated system of import subsidies and import allocations or by a government monopoly of buying.

Perhaps such subsidies and controls could have been justified if there had been a prospect that external prices would shortly have fallen to correspond with internal Canadian prices. But the outlook was highly uncertain and in fact external prices have not yet fallen to anywhere near that level.

The difficulties of holding prices down at home were increased by the emergence of the dollar problem in 1947. The subsidies and mark-up controls on imported goods, although a partially effective price control measure, tended to produce an increased volume of imports in the subsidized products. When steps were taken in late 1947 to restrict the purchase of some United States goods, the use of domestic substitutes or similar goods obtained from other countries resulted in higher prices in Canada. A larger volume of exports to the United States to improve the dollar position meant in many instances an increase in the domestic price.

As one of what might be termed external factors we examined the effects of the loans and credits extended to overseas countries. We are inclined to agree with one of our witnesses that "it was not only our moral duty but also in our long-run economic and political interest to extend such loans and assistance." But the decision to provide this aid, however much it was justified, did add to demand without adding immediately to supply and thus contributed to inflationary pressures.

The Investment Boom

Several witnesses dealt with the effect of the recent high level of capital expenditures upon price levels in Canada.

Clearly enough, these expenditures were very large in both dollar amounts and physical terms, exceeding those of any previous period in our history. Yet they absorbed probably a smaller share of the available goods and services than they did in 1929 when investment went forward without any important rise in the general price level.

The only firm conclusion that can be reached, therefore, is that domestic investment expenditures plus other expenditures by consumers, by government and by foreigners in Canada were too large in total to be made without upward pressure on the price level. It was a case of trying to do too much of too many things at one time. Moreover, even if competing demands had been on a smaller scale, there would have been sharp increases in construction costs and prices of capital goods generally because of the impact of the greatly increased demands upon the capital goods industry.

On the whole, investment expenditures by government, apart from housing, were not responsible for much of the increased demand. This is indicated most clearly by the fact that these expenditures in the post-war period have not been larger in physical terms than in the years immediately preceding the outbreak of war. The Federal government appears to have adhered fairly well to its stated policy of deferring postponable projects. Provincial and municipal expenditures on public works have been relatively larger but we cannot say that they have been excessive considering the urgency of some of the demands such as those for schools, hospitals, etc.

The chief elements in the investment boom were therefore the high level of business investment expenditures and housing construction. To a significant extent the Federal government itself is responsible by its own housing program and its priority and financial assistance to private builders, supplemented by some provincial help, for the large volume of new housing. Without this government intervention it is unlikely that as large a proportion of labour, materials and equipment would have been devoted to house building during the period since the end of the war. We doubt whether any other aspect of government policy in the post-war period had greater public support.

Business investment in new plant and equipment was high primarily because of the desire to make good the deficiencies which accumulated during the pre-war depression and the period of the war and to enlarge productive capacity to meet the anticipated high level of post-war demand for consumers goods and exports and to some extent, it would appear, because financial conditions were favourable. There was a coincidence of desire to expand, availability of the necessary funds and some positive encouragement from the authorities.

That there should have been a large scale expansion in the productive capacity of the country can hardly be questioned. The crucial point is whether or not such a large program should have been concentrated into such a short period when other demands were competing for resources.

The objective for which we should aim is not only a high standard of living but a reasonable degree of stability. We shall not presume to say that recent investment expenditures have been on too high a level, for only time will tell if this is so. It is reasonable to assume, however, that there seems to have been a good deal more concern about a possible de-

iciency of demand in the post-war period than of a possible excess of demand. In Canada, as in the United States, there has been a good deal of "caution lest in ending a prosperous inflation, the prosperity should also be ended."

Finally, while it is evident that our desire to make investment expenditures on a large scale at the same time as we were bidding for resources for other purposes has contributed to rising prices, it is very difficult to determine how important this factor has been in relation to other price raising factors that were at work in the economy. As we have pointed out elsewhere, strong upward pressures were placed on Canadian prices by the rapid increases in prices in markets to which we sell and from which we buy. Canadian prices would have responded to these external pressures in any event. Probably the most that can be said is that if investment expenditures had been on a smaller scale, external influences would not have spread through the economy as rapidly as they did and construction costs would not have risen so high in relation to prices generally. Furthermore, external influences not only affected prices in Canada through imports and exports but played their part in the generation of the investment boom. True, there was no great influx of capital such as occurred early in the century and again in the twenties; on the contrary this investment boom has been financed almost wholly from Canadian sources. Nonetheless, external demands for Canadian goods, new methods and ideas originating abroad and the example and effect of the United States boom have played no small part in spurring Canadian investment.

Fiscal and Monetary Policy

Government spending, taxing, borrowing and debt repayment can be looked at from two points of view. Primarily governments spend money to provide services that the public wants. They tax to raise the necessary revenues and to repay debt. They borrow, as any individual or corporation borrows, to raise capital for projects of a durable character or to meet temporary or extraordinary expenses such as arise in wartime. But these government operations also have effects on economic activity. We shall be concerned more especially with these economic effects. Nevertheless, while most of our discussion will be along these lines, it should not be concluded that we are unaware of the primary purpose of spending, taxing, borrowing and debt repayment. Whatever other effects it may have, a tax is primarily a means of paying government expenses. Equally a budget surplus arising from an excess of revenues over expenditures, while it will be examined in terms of its effect as an anti-inflationary measure, is after all simply a means of reducing the public debt and thereby reducing future charges on the public exchequer.

In theory fiscal and monetary action alone can prevent a general rise in prices. All that is required is a policy which reduces purchasing power and otherwise restricts expansion in the money supply and the rate of spending to the point where money demand is equal to the available supply

of goods and services at the existing level of prices. If such a policy is carried through, so the theory runs, even a rising level of external prices can be neutralized by allowing the domestic currency to appreciate in terms of other currencies.

In practice, however, there are some very real limitations on the extent to which fiscal and monetary measures could have been used to reduce inflationary pressures that have existed in Canada since the outbreak of World War II.

One such limitation lies in the reaction of taxpayers to tax rates which they regard as unduly high. Personal income taxes which are regarded as too high may, under certain circumstances, lead to slackening of personal effort, or to demands for higher wages. Unduly high taxes on corporate profits may, under certain circumstances, interfere with maximum output and may increase costs and prices through lowering the penalties on waste and inefficiency in business. Unduly high indirect taxes are less likely to impinge on incentives, but may cut across accepted standards of equity in taxation, and there is danger that because of their effect on the cost of living they, too, may lead to higher wage demands. In other words, if the remedy is administered in too large doses, it may produce reactions opposite to those intended.

Apart from the effects on incentive, experience has confirmed that neither fiscal nor monetary measures can be sufficiently selective and flexible to relieve the bottlenecks in particular commodities which arise in an acutely inflationary situation. Such measures may be able to control the situation ultimately but the over-all results may be much too drastic. To use them for such a purpose is like using a butcher knife to perform a delicate surgical operation. The cause of the trouble may be removed but a good deal of unnecessary damage may have been inflicted in other parts of the system.

More important perhaps than any of these limitations is that imposed by the degree to which the public is willing to give support to a government which attempts to put into effect the kind of fiscal and monetary policies required to prevent rising prices. Inflation is undesirable and unpopular in many ways, but full employment and prosperity also have a very wide popularity.

Our appraisal must therefore be made with these economic and public limitations held clearly in view. The test we apply is, under all the circumstances have the policies followed made as much of a contribution to stability as could reasonably have been expected?

Without necessarily concurring in all the views expressed by the government, we would commend the efforts that have been made, through the budget speeches of the Minister of Finance and elsewhere, to clarify the purposes of fiscal and monetary measures in an inflationary situation. As we have already said, government cannot move beyond the point of public acceptance in these matters but, thanks to the growing sense of

public understanding of economic issues, that point is now well beyond what one would have thought possible 10 years ago.

Reviewing the period as a whole, it is clear that little use was made of monetary policy in the older orthodox sense, that is, the general restriction on the supply of money, leading to higher interest rates. It appears that fiscal measures, supplemented by direct controls, were depended upon almost entirely to reduce the excess of demand over supply. Various official explanations were offered from time to time for the decision not to follow a more vigorous monetary policy, not all of which appear to us to be entirely consistent. When during the war the prospect of higher interest rates might have interfered with the current sale and retention of Victory Bonds, it was suggested that higher rates would "only become intelligible if, after war shortages are over, consumers' expenditure and capital development were to proceed at a rate which would overstrain our productive capacity".

In 1948, following a limited decline in the price of long-term government bonds, we find the Bank of Canada saying that it

"does not regard the increase in rates of interest which has taken place as one of the most important factors in combating a general rise in price levels. The Bank is not in favour of a drastic increase in interest rates which would be likely to create a situation that might hamper, and might even prevent, essential forms of capital investment which Canada needs and which it is desirable should be proceeded with."

The Budget Speech of May 18, 1948, puts emphasis on the relatively small effect that any "reasonable" increase in interest rates would have on business expenditure or on consumer spending or saving.

The argument that in the circumstances of the post-war period most consumers and business men would not have been deterred from proceeding with their spending plans by a moderate rise in the rate of interest is very similar to the argument, sometimes advanced in the pre-war depression, that a reduction in interest rates would have an insignificant effect in stimulating spending. In both depression and boom and, for that matter, at all times, economic forces are at work far more powerful than the possible effects of a change in the cost of borrowing money or in the rate of return on savings. To conclude, however, that the change should not be made because the probable effects would be small is quite a different matter. The easy money policy adopted by the Canadian government in the early thirties did not cure the depression, but it was generally acknowledged to be a step in the right direction and that higher interest rates would have caused an even greater curtailment of spending in individual cases.

In appraising monetary policy since the beginning of World War II it therefore seems fair to say that it was largely passive and deliberately so. Whether it should have been more positively anti-inflationary is a matter of judgment. A tighter rein would have involved a drop in the market price

of Victory Bonds and other longer term government securities. Since the Canadian government debt has now grown until it forms a very large part of the total debt held by Canadians and a similarly large part of the total assets of institutions like banks and insurance companies, we can understand the reluctance of the monetary authorities to create unsettlement in the financial markets. We can understand, too, their reluctance even to appear to break faith with individual holders of Victory Bonds who may have purchased such bonds in the expectation that they would always be able to sell them if need arose, at around par.

Nevertheless, it is our view that monetary measures could have been used to a greater extent than they were during the recent inflationary period. We hold this view even though we are aware that Canadian policy was similar to that followed in the United States and the United Kingdom. The policies followed probably reflected public thinking and discussion which seemed, on the whole, to be more concerned about the dangers of a post-war recession than of a post-war inflation.

On the other hand the government did not hesitate to pursue a vigorous fiscal policy. It made a determined effort to pay for a high proportion of the costs of the war out of taxes and to finance the remaining deficit by methods calculated to reduce the volume of spending. There are no absolute standards against which to measure achievements; we can only record our view that the policies followed by the government indicated a true appreciation of the principles of war finance and that more was done, than most people thought possible, to translate those principles into practice. Even so, there remained in the hands of the public at the end of the war a large volume of liquid savings held in banks or government bonds ready to be spent. These savings have added to the difficulty of keeping the post-war inflation in check.

To some extent at least the Canadian government shared the widely-held view that the problem in the post-war period was more likely to be a deficiency than an excess of demand; hence, its special tax concessions to business to encourage capital expenditures. In the light of subsequent events it is possible that these concessions gave a greater stimulus to spending than was needed to keep the economy operating at full capacity.

We must observe, however, that the spending stimulated by these concessions and by a continuation of low interest rates may have been wholly desirable since it increased the productive capacity of the country. It can be argued that spending for consumption purposes should have been curtailed either by higher taxes or increased voluntary saving in order to make the additional capital investment possible without inflation. The trouble has not necessarily been an excessive rate of capital investment. But the combination of a high rate of spending on capital investment and the maintenance of a high rate of spending on current consumption made some inflation inevitable.

The purpose of fiscal policy in wartime was relatively simple. Apart from avoiding an unnecessary increase in the public debt, it was to curtail

civilian spending so that it did not compete with the government's spending for war purposes. Government spending generated the excess income that threatened to raise prices, and efforts were concentrated on trying to get the excess income back into the hands of the government through taxes or the sale of government bonds or on trying to "sterilize" it in the form of other kinds of savings.

At the end of the war this simple pattern disappeared. Government spending was no longer the main generator of inflation. It became clear that total spending would exceed total available supplies of goods and services even if the government took back in taxes as much as it spent. The situation called for a budget surplus, and, for a reduction in the public debt.

How far did the policies followed meet this requirement? As to expenditure, we are not in a position to comment other than to say that most of the increases in spending on current account compared with pre-war are to be found in the expansion of the social services, the payments to provinces under the tax agreements and the greatly enlarged scale of defence and veterans' expenditure, all of which are presumably part of the accepted pattern. As already pointed out the Federal government seems to have adhered in large measure to its professed policy of postponing major public works to a more propitious time. Most of the limited post-war increase in the government sector of capital investment is accounted for by provincial and municipal expenditure and by Dominion government housing expenditure.

In assessing post-war tax policy it is necessary to take account of public acceptability as well as of economic desirability. Looking at the matter only in the light of what was economically desirable and leaving out of account the question of public acceptability, we are inclined to think that taxes might have been maintained at a somewhat higher rate. No doubt prices would still have risen, but the rate of the increase would probably have been smaller, and the resulting pressure on those with small, and relatively fixed incomes, less severe.

When account is taken of over-all government spending and investment, rather than merely those particular forms of expenditure that are included in the budget, the surplus of government intake over government outgo in the past few years has not been large.

Prices and Wages

We studied the relationship between wages and prices from two points of view. First, we considered how changes in wages bring about changes in prices and, in turn, how changes in prices bring about changes in wages. Second, we looked at wages and prices from the point of view of the individual wage earner.

Wages are a cost of production. In the aggregate they also form part of the spending power of the population. Thus rising wages have a doubled effect on prices in an inflationary situation.

Although a cost, higher wages do not necessarily mean higher labour costs per unit of output. Nor do lower wages necessarily mean lower labour costs per unit of output. As one witness said, "It all depends upon productivity." Furthermore, wages are only part of total costs and a varying part.

As an indication of the importance of rising wages as a factor on the demand side, we noted that total labour income rose from \$2,583 million in 1939 to \$7,134 million, in 1948. In 1948 this labour income constituted more than on-half of the total national income.

Rising prices not only result from, but lead to higher wages. When prices are rising, employers are prepared to pay higher wages in order to attract and hold their labour force. Similarly workers, seeing higher profits and facing higher living costs, seek higher wages.

To put the matter in its broadest terms, a price inflation usually includes a wage inflation. We reached the general conclusion, therefore, that no simple answer can be given to the question: Do rising wages cause rising prices or do rising prices cause rising wages? They affect each other. Furthermore, it is our view that in, Canada, since 1939, other general forces and influences, such as fiscal and monetary policies, external influences, the development of new resources, and technological improvements, have had an important influence on both wage and price movements.

An examination of the relationship between wages and prices from the point of view of the wage-earner revealed that since 1939 consumer prices, as measured by the cost-of-living index, have risen less than the increase in wages. That is, real wages have risen substantially since before the war, whether viewed as hourly wage rates, average weekly earnings or total labour income.

In the early war years as both production and employment expanded rapidly, the average earnings of individuals increased substantially. In the following period of price and wage control the percentage increase in money wage rates was considerably less than in the pre-control period, but real wage rates rose more rapidly because of the stability of consumers' prices. When prices and wages were decontrolled after the war, the average rate of increase in wage rates roughly paralleled the increase in the cost of living, so that real wage rates have changed but little. Taking into account the post-war reduction in income taxes it seems probable that most workers are as well off as they were in 1945.

We also made a comparison of the position of wage-earners in Canada today with what it was in 1929, a year of high employment. The striking feature of this comparison is the fairly steady upward trend in real wage rates throughout the whole 20 year period, an upward trend which has been more rapid since 1939 than previously. Provided labour-management relations remain on a satisfactory basis, it seems reasonable to expect that the upward trend in real wages will be resumed during the next few years as a result of post-war developments, such as the renovation and

expansion of industrial plants and the exploitation for peacetime use of wartime technological advances.

Prices and Corporate Profits

The view was expressed before us on a number of occasions that high profits earned by business corporations are partly to blame for the recent rise in prices. We found the relationship to be complicated because, in the short run, profits are a residual return. The owners receive whatever is left over after all other claimants have been paid. For this reason corporate profits are subject to more extreme fluctuation than other forms of income.

Corporate profits are related to prices in a number of different ways. They result from higher prices as market conditions make it possible for business firms to increase their prices. Corporate profits may also have an effect on prices through the way in which they influence spending, particularly spending on capital goods. Finally, corporate profits may exert an indirect influence on prices by means of the part which these profits play in the wage-price spiral.

Reported profits during a period of rapidly changing prices have to be corrected to give a true picture of the position. We found that the profits reported by Canadian corporations in recent years contain an element of what is essentially an inventory profit arising from the particular method commonly used in valuing inventories. They also tend to be somewhat overstated because the allowances made for depreciation are probably insufficient to replace, at today's cost, the capital which has worn out during the year. In addition, corporate profits have been increased by extremely profitable sales on the export market, and to that extent do not form part of the price charged to Canadians.

The available data do not enable very definite conclusions to be reached as to the size and significance of corporate profits as a whole in relation to the recent rise in prices. For the year 1947 profits earned by all Canadian corporations, before deduction of tax, formed 14.4 per cent of the Gross National Product (less certain government expenditures) as against 12.0 per cent in 1945 and 11.3 per cent in 1939. After deducting tax, corporate profits formed 7.6 per cent of this total of Gross National Product in 1947 as against 5.7 per cent in 1945 and 9.0 per cent in 1939. These calculations may be taken to mean that the margin of profits has tended to be somewhat larger in recent years, although allowance must be made for the various special factors such as inventory profits, depreciation reserves and export profits mentioned above.

In our investigations of specific industries, we studied the profit position of a great number of manufacturers, wholesalers and retailers. We found that in most cases their net profit had increased very substantially over pre-war years in dollar amounts, especially in the past two years. Calculated as a percentage of total sales, however, the net profit of the majority of companies appeared much more moderate. While the percent-

age of net profit had risen very considerably for some, for others it had remained fairly steady and for still others had decreased as compared to pre-war years. Even where the percentage had declined, however, the increased volume of sales usually resulted in higher dollar profits.

Although it cannot be assumed that we live under conditions of pure competition, neither can it be assumed that all corporations are in a position to determine the market price of their products at any level they see fit. In some respects, therefore, to say that higher profits are a cause of higher prices for manufactured goods is like saying that higher incomes for farmers are a cause of higher prices for farm produce. The farmer sells at the going market price; if he sold for anything less, the dealer rather than the consumer would be the probable beneficiary.

Looking at corporate profits as a whole we do not conclude that the raising of prices to earn exceptionally high profits was general, or played a major part in the rise in prices since the end of the war. This point is dealt with in the industry studies in Volume III. So that there may be no misunderstanding we should add that in making such a statement we are not in any way expressing an opinion on the question of whether the returns to the owners of corporate businesses were or were not excessive in relation to the rest of the community. Our sole concern here is to attempt to trace the causes of the recent rise in the cost of living.

Profits are income, like wages or rents, which can either be saved or spent. Assuming that the profits have been earned, does it matter whether they are paid out as dividends or retained as undistributed profits in the hands of the corporations?

If the retained profits had been distributed, a part of them would have been paid over in the form of taxes by shareholders. These shareholders, taken as a group, would not spend all of the additional dividends they receive. Moreover, a proportion of the dividends of Canadian corporations is paid to non-Canadians. On the other hand, a corporation, in making its plans for expansion or improvement, is no doubt influenced not only by profit expectations but also by its liquid position. It is more likely to go ahead, or at least to go ahead more quickly, if it has all or most of the necessary funds on hand than if it has to go into the capital market to obtain them. Corporate undistributed profits plus depreciation allowances in 1947 were sufficient to finance over one-half of the total private investment in plant, equipment and inventories in that year.

Whatever merit there may be in this argument we do not think too much weight should be given to it. Some corporations have not spent all their undistributed profits and therefore have created savings which would not necessarily have been made by individual shareholders. Furthermore, to the extent that profits are overstated because of inventory profits or inadequate allowance for depreciation, the apparent extent of undistributed profits may be misleading.

Finally, corporate profits affect prices in an indirect manner through the part they play in the wage-price spiral. High corporate profits, even

though these are earned through export sales or contain an important element in inventory profits, provide an incentive or support for labour to increase its demands for higher wages. In this way the higher profits, though partly fictitious, probably played an active part in the wage-price spiral.

Agricultural Prices

Prices of farm products have been extremely unstable. They have been quick to respond to general inflationary and deflationary influences. It is not surprising therefore that they have risen more rapidly than prices in general since the outbreak of World War II. The official index shows that farm prices have risen by 122 per cent since 1939 as against an increase of 112 per cent in general wholesale prices. If wheat is included in the index at the current domestic and British contract price rather than at the subsidized price to consumers, the gain in farm prices would be 137 per cent.

The largest increase in farm prices, amounting to 75 per cent, occurred between 1939 and 1945. Since the end of the war, farm products prices have risen less than prices of most other groups in the wholesale index. Yet, because the cost of foods has risen so sharply during this period, this fact is often overlooked. The chief explanation for the apparent anomaly is to be found in the removal of food subsidies which kept food prices down during the war.

In general we found that prices of farm products moved upward in response to the acute world shortage of food, a shortage that was an inevitable aftermath of war. To some extent the rise was moderated by the food contracts negotiated with the United Kingdom. Both these agreements and the restrictions that were placed on the export of farm products to the United States have kept Canadian prices from rising to the levels prevailing in export markets.

This has undoubtedly helped to keep the whole Canadian price structure at a lower level, for if food prices had risen to world levels it seems likely that wages and prices of manufactured goods would also have been affected.

To the farmer the higher prices for his product have meant higher incomes, both gross and net. At the outbreak of war, farm products prices were relatively low and the farmers' position similarly depressed. Since that time farm incomes have improved a good deal, although the outlook for agricultural prices is by no means clear.

Mark-ups and Margins

Are the mark-ups taken by the wholesalers and retailers unnecessarily high, and to what extent are these mark-ups responsible for the recent rise in prices?

The wholesaler and retailer provide very essential services such as transportation, storage, merchandising, financing and advertising, in moving goods from the primary producer or manufacturer to the ultimate con-

sumer. The mark-up charged on an article is expected to cover operating expenses plus a margin of profit. Over a period of years, certain percentage mark-ups have come to be considered as "normal" for the varying types of goods. A highly perishable line, such as fresh fruits and vegetables, will normally carry a higher percentage mark-up than a more staple line like sugar, and style merchandise, such as women's hats or dresses, will carry a higher mark-up than a utility garment such as a pair of overalls.

The question of most concern, however, is whether or not the mark-ups and margins increased unduly as prices rose during the past three years.

In our investigations, we found that it was general for the distributive trades to maintain the same fixed percentage mark-ups on their various lines of merchandise as their costs rose, and that the effect of this practice was to increase prices to the consumer much more than a dollar and cent mark-up would. Where a fixed percentage mark-up is used by the manufacturer, wholesaler and retailer, an initial cost increase at the manufacturing level is pyramided through the entire price structure.

One reason given by retailers and wholesalers for adhering to a "traditional" percentage mark-up when their cost for the article increases, even though their other expenses may remain the same, is that it is a convenient and quick pricing procedure. They say that adding a dollar and cent mark-up would require much more complicated record keeping. Also, they claim that their other operating expenses usually do rise in a period when the cost of their merchandise is rising. This was borne out by the evidence before us in a general way, but it was to be noted also that among a considerable number of merchants the operating expenses did not go up as much in proportion to sales during the recent period as did their costs, leaving them an enhanced profit. Another argument put forward is that merchants need a higher mark-up in times of rising prices as a hedge against inventory losses when prices decline.

The indiscriminate application of fixed percentage mark-ups gives no consideration to the effect of the volume of sales. When the rate of stock turnover increases substantially there tends to be a reduction in operating expenses, and we find it difficult to justify the augmented dollar profits made by distributors who invariably maintain the same percentage mark-up as when their rate of stock turnover was lower.

In our investigations, we found that a fixed percentage mark-up was very generally used by retailers of shoes, men's shirts, and women's and children's clothing. Increases in the percentage mark-ups taken by retailers were found in connection with recent rises in the price of bread. In the work clothing field, it was stated in evidence that the retail mark-up on overalls had risen quite generally from about 25 per cent of selling price before the war to 33½ per cent during and since the war.

In general, we found that retail operations in Canada between 1939 and 1948, showed fairly steady gross margins as a percentage of sales, a somewhat decreased ratio of operating expenses and higher net dollar profits. The increased rate of stock turnover during the war and post-war

years, combined with a comparatively small number of mark-downs, would have made it possible for the distributive trades to take a lower percentage mark-up on their merchandise and still realize larger net profits in dollar terms.

Behind all this, the crux of the matter from the consumers' point of view is how much the profits in the distributive trades did or could affect prices. The fact of the matter is that the cost of the merchandise and the operating expenses of the merchant make up the big proportion of the price in the majority of cases, and that if all profits were eliminated, the saving in price to the consumer would be slight. It would seem that, in the long run, the greatest hope for reduction of margins and mark-ups lies in reducing the costs of distribution.

Restrictive Business Practices

During our inquiry we tried to ascertain whether there has been any marked growth of restrictive business practices during the post-war period and whether the effects of these practices on competition had played a major role in raising prices.

Among the industries on which we report, we found a number where conditions were highly competitive. A good example was the primary livestock industry, in which there are a very large number of producers, no one of whom handles more than a small fraction of the total output. On the other hand, we found a number of industries where competitive forces were limited because of the small number of firms in such fields. For instance, there are only three firms in Canada manufacturing primary fertilizer materials and the very high capital investment required for this industry makes it difficult for new firms to enter this field. Another example occurs in primary textiles, where a few big firms dominate the cotton industry and where the three producers of the three types of synthetic yarns manufacture the entire Canadian output.

More significant is the growing tendency toward monopolistic competition through brand names and special advertising, price leadership by a few large firms in an industry and resale price maintenance whereby a manufacturer sets the retail price for his product.

The experiences and influences of the war period have created conditions conducive to the spread of patterns of behaviour from which active price competition is excluded. The effective organization of industry for war purposes required concerted rather than competitive efforts in many aspects of business activity, leaving a tendency towards less rather than more enterprise.

Another legacy of wartime conditions appears to be the effect which maximum price regulations exerted on the pricing policies of businessmen. Continuance of mark-up controls by business groups themselves, but designed to fix minimum rather than maximum margins, seems to be favoured in many lines of trade. Such methods of determining prices have come to be regarded as established trade practices, approved by the government during the war and therefore "reasonable" in peacetime. The widespread

acceptance of such practices can be as effective in maintaining or increasing prices as formal agreements and may become even more significant when improved conditions of supply could be expected to lead to lower prices.

From a general acceptance of a system of fixed percentage mark-ups, it is an easy step to a policy of resale price maintenance, whereby a manufacturer sets the retail price at which his product may be sold and which increases the rigidities of the whole marketing structure.

It is claimed that such a policy by the manufacturer avoids "confusion in the trade" and protects the small retailer from predatory price cutting by large distributors. The danger of such practices lies in the tendency towards a gradual removal of all reasonable price competition at the dealer's level and leads to additional demands for control over new entrants to the trade so that the advantages of a guaranteed margin need not be shared. From the examples we have examined it appears that as a whole the disadvantages to the buying public greatly exceed any possible advantages.

Resale price maintenance, like other forms of restrictive practices, does offer what appears to the manufacturer and distributor to be a happy relief from the unending struggle against the harsh correctives of the free market system. But the solution we think is illusory. It not only vitiates the spirit of enterprise by which all commercial and industrial life is nourished, it deprives the consumer of his right to seek out and patronize the more efficient distributors, namely, those who over a period of time can offer goods for sale at prices lower than their competitors.

Where Canadian industries have only a few producers and where alternative sources of domestic supply are therefore limited, there exists a considerable danger that the free entry of new businesses into the field will also be limited. Under such circumstances, a policy of selling only to recognized customers can have a very limiting effect. In view of this, we would favour the extension of the principle of lifting dumping duties or reducing the customs tariff where domestic suppliers do not treat purchasers on equal terms and where alternative import sources of supply would lessen the danger of monopolistic growth.

Underproduction may also result where there are only a few firms in the field and the spur of competition is not very strong. An example of this may be seen in the primary cotton textiles industry, where production has been decreasing since the war.

The concentration of economic power reduces the "competitive spur of efficiency" and we regard it as undesirable socially and economically. But we have not found monopolistic practices to be a major factor in the recent rise in prices. They are more likely to maintain prices above the competitive level in a deflationary situation. The tendency appears to be for monopolistic enterprises to try to protect themselves from the "peaks and valleys" of the business cycle by obtaining for themselves a stable price over a period of time, the net result of which is generally to place the average price of their goods in the long run above what would be the average competitive level.

SUMMARY OF VOLUME III

In our industry investigations and those of the Special House of Commons Committee, 10 essential commodities were studied and a survey made of consumer credit. These commodities, in which some substantial price increases took place during the past two years, included a number of foods, textiles and clothing, shoes and leather, fertilizers and lumber. Detailed and comprehensive reports on each of these industries are to be found in Volume III, along with a description of the cost-of-living index and a statistical supplement. In the following summaries, an effort has been made to indicate the more significant facts relating to the price increases in each industry.

Bread

The outstanding feature of the bread baking industry in Canada in recent years has been the growth of large-scale plants and the concentration of financial control in the hands of a few dominant groups, frequently related to the flour milling industry. Bread is the most commonly used of all foods and may be baked equally well in the large plant or the smallest home kitchen. It might thus be expected to be a very competitive product, but in actual practice the principal baking firms have been able to establish a rigid structure of bread prices, both for store and house to house sale. In pre-war days, it appeared that the chain store brands of bread and the independent bakers might exercise considerable influence on bread price levels. But these dealers serve only a small proportion of the market and therefore different prices, ranging from 10 to 14 cents a loaf, continue to exist for loaves of bread having the same nutritive value.

The tendency among the large multiple bakeries has been to minimize price competition and to use instead expensive sales promotion and advertising for their particular brand, which is in effect simply an effort to induce customers to "change bakers". Resale price maintenance is used by many of the multiple bakeries and in recent price increases the retailer has frequently been guaranteed increasing margins. The margins now being established appear to be out of proportion with the margins that would exist under competitive conditions on a fast moving packaged food such as bread. If retailers had greater freedom to compete and were more inclined to do so, the availability of lower-priced bread might have a much more significant effect on the general price level.

That the price of bread would increase when bread and flour were decontrolled in September, 1947, was to be expected. The price ceiling had been established on 1939 figures when the price of wheat was at low levels. The removal of the wheat subsidy, together with delayed adjustments in other costs, would have led to a sharp price increase in any event, but it is to be questioned whether the actual increases were entirely justified by these advances in cost.

Butter

The retail price of creamery butter increased from about 45 cents in April, 1947, to approximately 73 cents in January, 1948, when a price ceiling was again applied.

With the removal of the butterfat subsidy there was an expected increase of about 10 cents a pound. The later lifting of the subsidy on coarse grains added a further cost item. But the greater part of the rise in price was due to consumer demand. Many people considered the winter of 1947-1948 as a period of butter shortage, but in actual fact butter stocks were as large as in the preceding year. The "shortage" existed because consumers wished to buy more butter than they had had under rationing. In the ensuing scramble for the existing supply, consumers inevitably bid up prices.

Most of the exceptional profits made as a result of this rise in butter prices went to firms which had substantial stocks of butter in storage. There is a large normal seasonal variation in the output of butter, and stocks are stored in the high production season of spring and summer. The typical seasonal movement of butter prices is the converse of the variation in production, prices being lower in summer and higher in winter. The storage of butter not only serves a useful purpose in providing butter to consumers the year round, but ordinarily helps to keep prices more stable between seasons.

Most of the firms storing butter during the winter of 1947-1948, did not build up abnormally large stocks in an effort to raise prices. But in following their regular routine, they made unprecedented profits on their storage operations, approximately 12 cents per pound, compared to the average profit of 0.19 cents per pound which one of the larger firms had made in its butter operations during the preceding nine years.

Livestock and Meat

The sharply increased prices which Canadians paid for pork and beef in 1948 were largely due to external influence. The price of pork was almost entirely governed by the United Kingdom contracts, while the price of beef was influenced mainly by the lifting of the embargo on exports to the United States.

The price of pork for the United Kingdom contract was twice raised in 1947, each time by \$2 per hundredweight; and the price in Canada rose accordingly. Again, in January, 1948, prices on the United Kingdom contract for both pork and beef were raised and domestic prices followed. In 1948, the price of hogs had risen to the level of United States prices, but rising costs of production, resulting from the removal of ceilings and subsidies on feed grains, led to a considerably restricted hog production so much so that the relatively modest export contract for 225 million pounds of bacon for the United Kingdom was not filled.

The real control on the price of beef after removal of the ceilings was the embargo on exports to the United States. Prices moved upward in the first half of 1948 in anticipation of the removal of the embargo. Further price increases took place when the embargo was actually lifted.

The primary livestock industry and the retail meat trade are very competitive, but the processing industry shows a high degree of concentration. The three largest packing firms account for about 60 per cent of the total inspected slaughterings in Canada, which would indicate that competition operates within a fairly restricted framework, though there may be considerable rivalry among these firms. These large firms are efficient in their operations and, though realizing small profits per unit of output, earn substantial returns on their investment. The very heavy capital investment required, together with decreasing cost ratio as the scale of the business expands, tends to keep additional competitors from entering the field.

The three largest packing firms indicated that they made a net profit of \$4.3 million in the four months following the simultaneous removal of price controls and settlement of the packing-house workers' strike in October, 1947, compared to less than \$1 million in the corresponding period the previous year. Firms holding beef and pork in cold storage at the end of 1947, made substantial fortuitous gains as a result of inventory appreciation as market prices advanced with United Kingdom contract prices. Four firms held over two-thirds of total cold storage stocks and it would appear that they made substantial profits on these holdings.

Fruits and Vegetables

When prices of fruits and vegetables were decontrolled in January, 1947, no significant price increases resulted. However, the following November, when restrictions were placed on the import of a wide variety of fruits and vegetables from the United States, as part of the program to conserve Canada's foreign exchange resources, prices of both imported and domestic fresh fruits and vegetables and canned fruits and vegetables rose sharply.

Fundamentally, the price rise was due to curtailed supplies on the one hand and high consumer demand on the other, which had the effect of bidding up prices. There is, however, evidence that some wholesalers contributed to the rise by increasing their gross margins in order to compensate, they said, for the decreased volume of sales. A comparison of net operating profit, before income tax earned by six fruit and vegetable wholesalers, three operating in Toronto and one each in Winnipeg, Vancouver and Sydney, Nova Scotia, for the months of November to March, doubled between 1946-1947 and 1947-1948. This would seem to indicate that such enhanced margins were not altogether necessary in order to maintain profits.

The wholesaling of fruits and vegetables appears to be very competitive in eastern Canada. But this may not be so true for western Canada,

where one-half of all wholesale establishments are controlled by three chains operating throughout the western provinces.

Primary Textiles

The Canadian primary textile industry is divided into three main sections, cotton, wool and synthetic fibres, each of which have distinct characteristics and pricing problems.

Cotton

Since Canada must import all raw cotton used in the primary industry, the prices of Canadian cotton yarns and fabrics must follow closely changes in world prices for raw cotton. The domestic mills produce 95 per cent of all yarn required in Canadian production but a large proportion of our broadwoven fabrics is imported.

The dominance of a few large firms, with heavy capital investment, is an outstanding feature of the primary cotton industry. Five firms account for three-quarters of all Canadian production of cotton yarn and cloth, and competition is further limited by the fact that not all of these larger firms produce identical types of fabrics.

Cotton fabric production has fallen from the war peak and in 1948 was barely over the pre-war level. With the great increase in consumer purchasing power since the beginning of the war, the 1948 level of production resulted in a continuing shortage of many types of fabrics. All witnesses representing the primary cotton manufacturers attributed this decline in production to labour difficulties. However, it may also be due to the fact that they operate with some degree of monopolistic advantage behind a heavy protective tariff.

The net profit as a percentage of capital employed for the five largest firms in the industry averaged about 6.5 per cent in 1947 and 1948.

Wool

The Canadian primary wool textile industry is also heavily dependent on imports for its raw materials, 95 per cent of the raw wool for Canadian manufacture being imported.

The concentration of business in the primary wool industry is less than in primary cotton. There is a larger number of firms in the industry but there is little similarity in the fabrics produced, especially by the larger units.

The operating income of the largest firm in the industry as a percentage of sales increased from 2.4 per cent in 1936-1939 to 14.9 per cent in 1947. Percentages of operating income to sales for the second and third largest firms fell in the same period from 10.6 per cent to 5.9 per cent and from 15.6 per cent to 12.7 per cent respectively. However, the average for 51 other firms showed an increase from 5.8 to 11.4 per cent in this period.

As a percentage of capital employed, the net profit of the largest firm decreased from 10.4 per cent in 1945 to 4.5 per cent in 1946 and jumped to 25.5 per cent in 1947. This firm increased some of its prices very sharply immediately after decontrol.

Synthetic Fibres

Three large firms manufacturing synthetic yarns, each occupying a monopoly position in its own field, were examined by the Special Committee. Two of these firms make different types of rayon yarns and one produces nylon. Original patent rights, together with very heavy capital requirements, have effectively restricted the establishment of new firms in this field.

The nylon firm reduced its prices twice since it entered the civilian market in 1945 but, even so, profits after taxes in 1946 amounted to 17.2 per cent of net capital employed.

One of the rayon producers, after having made a net return on capital of 7.6 per cent in 1947, raised its prices in 1948. The other rayon producer raised prices in April, 1948, notwithstanding the fact that net profit in 1947 was 15.5 per cent of the capital employed and that, in the first quarter of 1948, this had increased to the equivalent of an annual rate of 24 per cent. The returns on capital for the nylon producers and the second mentioned rayon manufacturer, were, by any standard, very high indeed.

Chemical Fertilizers

Prices of chemical fertilizers increased much less than the average of all price rises since the pre-war period. World shortages and urgent world needs for fertilizers have resulted in prices on the world market well above Canadian prices. The domestic price level has been kept down by a combination of export and price controls plus restraint on the part of some of the larger firms. In general, the rise in domestic prices may be attributed to higher costs for imported materials and higher manufacturing costs. Only in one instance did we find a greatly increased amount and rate of profit.

The chemical fertilizer industry divides into two sections, the production of fertilizer materials and the mixing of fertilizer materials for sale to the ultimate consumer.

Fertilizer materials are made by a very small number of firms which, in many instances, have a virtual monopoly in a particular area. Plants producing fertilizer materials are on a large scale and call for heavy capital investment and, in consequence, it is difficult for new firms to enter the field. With competition so limited, reliance must be placed on individual producers to keep prices at a reasonable level. Generally speaking, this restraint has been forthcoming in the industry, but one firm, following decontrol, raised its domestic prices to export levels and more than tripled

its percentage of net profits to capital employed between 1946, and early 1948. This led to the price being rolled back and a ceiling reimposed by the Wartime Prices and Trade Board.

In the mixing industry there are a greater number of plants but a few large firms dominate the field. Higher costs have been the major factor resulting in higher prices, and we did not find increased profits an element of any great importance.

The industry follows a form of basing point pricing, a system under which it absorbs part of the freight on shipments into areas closer to competitors' plants. This serves to increase competition somewhat, but results in a higher market price for the products. It also leads to an uneconomic and unnecessary cross haulage of fertilizer. It would seem possible to reduce some of the industry's costs, especially in this matter of cross haulage.

The larger firms denied that there is any price leadership in the industry, but some of the smaller concerns giving evidence before us stated that they followed the prices set by the larger firms.

Hides and Leather

The increase in the prices of hides and leather in Canada following decontrol may be attributed mainly to the influence of world market and United States prices, though there were also substantial wage-rate rises and increased costs of tanning materials. At the time of decontrol, the packers and tanners were asked by the Wartime Prices and Trade Board to exercise restraint and keep the price of hides about midway between the former ceiling price and the United States prices. Nevertheless, Canadian hide prices rose quickly to meet the United States prices, though after the two prices equalized, the Canadian price remained steady notwithstanding a further considerable increase in the United States price.

Since hides are a by-product of the domestic meat industry and animals are slaughtered principally for meat, the supply of hides is largely unaffected by their price. The higher prices following decontrol therefore did not bring about any noticeable increase in supply and, consequently, it was deemed advisable to continue export controls for a time. As Canadian prices advanced well beyond the point which could be accounted for by domestic demand and supply conditions, stocks accumulated in anticipation of the termination of export controls. These surpluses in inventories were reduced when export controls were withdrawn in March, 1948.

The lack of uniformity in accounting methods makes it difficult to determine with accuracy the level of profits in an industry, which carries such heavy inventories. The net profits of the upper leather tanners were substantially higher in 1947 than in 1939, though part of the increase was probably due to returns from export markets. The net profits of the sole leather tanners, though larger in absolute amounts in 1947, were smaller as a percentage of sales and yielded a lower rate of return on shareholders' equity than in 1939.

Leather Footwear

The rise in the price of shoes reflects to a large extent the rapid increase in the price of leather since September, 1947. This has been further enhanced by the application by shoe retailers of a fixed mark-up of around $33\frac{1}{3}$ per cent of selling price, regardless of the volume of sales or the ratio of operating expenses to costs.

Perhaps the most serious problem facing the buyer of shoes is the tendency of the shoe trade to try to keep within established price lines by shifting to substitute materials, which may or may not have the same wearing qualities. Retailers, finding themselves faced with consumer complaints of higher prices, have been requesting manufacturers to produce shoes of lower cost materials so that they may maintain their established price lines.

The policy of resale price maintenance, while not general in the shoe industry, is practised by a few of the larger manufacturers.

On the whole, the manufacture of leather footwear has been regarded as very competitive. The United Shoe Machinery Company which has a patent monopoly on a large part of the industry's machinery, follows a policy of renting shoe machinery and makes it initially easier for new firms to enter the field.

Secondary Textiles

Clothing prices rose more than any other group except food in the cost-of-living index during the recent period of rising prices. The chief factors in this price rise were the increased costs of materials and labour, together with the cumulative effects of the system of fixed percentage mark-ups prevalent in the industry. The garment industry is heavily dependent on import sources for substantial quantities of cotton and wool fabrics, and import prices were therefore an important factor in the increased costs of production.

Taken as a whole, the garment trades are highly competitive, with an exceptionally large number of plants, varying in size from small concerns operating in an attic or basement to very large, well-equipped factories. Since scissors and sewing machines are the basic equipment needed and premises are often rented, very little capital is required and new firms can easily enter the trade. The larger firms do not dominate most segments of the trade but in men's shirts, men's furnishings and neckwear, the five largest firms account for over half the total employment in each sector.

Production of most garments has increased above pre-war levels, with the notable exception of men's fine shirts. Not only has the total production of men's shirts declined but a larger proportion of the production is going into the higher-priced shirts. This is due in part to the difficulty of getting sufficient supplies of the medium and lower-priced shirting fabrics and in part to a difficult supply situation in the lower-priced cotton fabrics generally. Production in the domestic cotton mills, which supply the bulk of the medium and lower-priced fabrics used in Canadian

garment trades, has declined since the war. Supplies from the United States have been limited by import quotas under the Emergency Exchange Conservation Act, and the cotton fabrics available from the United Kingdom have been much higher in price than comparable Canadian fabrics.

The drop in domestic production of cotton fabrics, which has been accompanied by continued informal allocations by the larger mills to their regular customers, has had a limiting effect on competitive conditions in the secondary industry, since it has been difficult for firms to expand in the field of low and medium-priced cotton garments or for new businesses to enter the field.

Accepted price ranges are generally adhered to in the clothing trade and working to a retail price is common pricing procedure for a large proportion of clothing manufacturers. The fixed percentage retail mark-up has become a "law of the Medes and Persians" in most sections of the trade, and manufacturers will reduce their own margins rather than attempt to interfere with "traditional" wholesale or retail mark-ups. There has been a considerable growth of direct sale to retailers by manufacturers, especially in the style clothing field and in nationally advertised brand name lines, such as men's shirts. Resale price maintenance appears to be a growing practice in some sections of the trade. Two of the largest shirt manufacturers have been affixing to their shirts, tags stating the retail price. However, even where the resale price is not definitely set by the manufacturer, the rigid adherence to fixed percentage retail mark-ups may have virtually the same effect.

Profit positions vary in different sections of the trade. The net profit of the five largest manufacturers of men's shirts had increased greatly in dollar amounts but, as a percentage of sales, had decreased from 5.2 per cent in 1939 to 4.9 per cent in 1947. On the other hand, as a percentage of shareholders' equity, the net profits had risen from 6.4 per cent to 14.6 per cent in the same period. The work clothing industry, which was in quite a depressed condition at the beginning of the war, showed the greatest increase in profits. The net profits of five work clothing manufacturers showed an increase as a percentage of sales from 0.5 per cent in 1939 to 5.3 per cent in 1947, while as a percentage of equity they rose from 1.1 per cent in 1939 to 22.3 per cent in 1947. It may also be noted that a number of retailers of work clothing have increased their mark-ups on overalls from the 25 per cent of selling price which was usual before the war to the $33\frac{1}{3}$ per cent allowed under the maximum price regulations of the Wartime Prices and Trade Board.

Lumber

Lumber is a competitive industry, with a large number of producers and distributors. There is little evidence to indicate any widespread attempts by the trade to raise or maintain prices by agreement, and no system of price leadership appears to be followed.

The price of lumber, has trebled since 1939. This advance has been due to unprecedented demand both in the domestic and export markets, combined with steadily rising costs of production. In this connection it should be noted that labour wage rates constitute 50 to 60 per cent of the cost of logs and that wage rates in logging showed one of the greatest increases of any industry, during the ten year period.

Price increases were granted during the period of control as incentives to maximize output, but from 1943 to 1947 price control effected a reasonable degree of stability in the face of heavy pressures from world market prices which rose steadily above controlled Canadian prices. In the latter part of the control period, production costs rose substantially following wage increases and were for a time higher than the ceiling prices in force. This situation was only made possible by the large amount of Canadian lumber sold on the export market, so that the over-all earnings of the industry were maintained by the higher returns on exports. In reality, the home market was being subsidized by foreign buyers.

When decontrol took place in September, 1947, the Canadian ceilings were \$15 to \$20 per thousand feet below export prices. Since the lifting of controls, the Canadian prices have risen substantially but have stayed somewhat below the export price level, due partly to export controls and partly to buyer resistance. The return to percentage mark-ups following decontrol resulted in higher dollar and cents margins at the retail level.

An important consideration in the whole study of lumber prices is the lack of uniformity in grading practices which has made it difficult to draw comparisons between the prices being charged by different dealers in different parts of the country.

Consumer Credit

Consumer credit can be a significant economic factor. Retail consumer credit provides the borrower with goods now for which he would otherwise have to wait, and compels him to save enough to pay for them after they have been delivered. The desire to possess something immediately coupled with available credit reinforces the demand for consumer goods, particularly durables which have a high unit price.

A moderate or even a large increase in the rates charged, seems to have less effect on demand for consumer credit than do changes in the down payments required and the period over which the debt is to be repaid. Lower down payments and longer terms make the actual cost of the commodity to the borrower higher. When such commodities are already scarce, purchasing on credit adds to inflationary pressure.

It is evident that the consumer is generally unaware of what he actually pays for credit. In many cases the rates quoted are discount rates charged on debts which are amortized by equal monthly payments. There is some doubt that the consumer is sufficiently informed as to the effective rates charged or the advantage of any particular contract to be able to choose between one contract and another. If finance charges were stated

as annual effective rates rather than as discount rates, the consumer would be able to choose the credit most advantageous to him and the conversion to an effective rate might provide some deterrent to borrowing.

Over the years there have been several factors leading to increased demand for consumer credit. The desire for a higher standard of living coupled with increasing production of consumer goods has led to a considerable increase in the number and size of credit institutions. Financing "on time" has become an accepted practice. The small loan business has grown and has become highly competitive.

The wartime regulations provided a considerable check on demand for commodities and helped to stem inflationary tendencies during the war and early post-war periods. Minimum down payments were set and the periods over which repayment could be made were limited. After the restrictions were removed there was a decided upturn in the volume of credit outstanding. The total of cash and commodity credit outstanding in Canada was \$675.9 million in 1941, \$947.5 million in 1947, and up to June, 1948, the one billion dollar mark was passed.

CONCLUSION

The Special House of Commons Committee on Prices was directed to examine and to report from time to time as to:

- (a) the causes of the recent rise in the cost of living;
- (b) prices which have been raised above levels justified by increased costs;
- (c) rises in prices due to the acquiring, accumulating or withholding from sale by any persons, firms or corporations of any goods beyond amounts reasonably required for the ordinary purposes of their business.

We were appointed to continue the inquiry into and concerning price structures, factors leading to price and cost increases and increased profit margins in Canada, paying particular regard to essential commodities and services in common daily use.

Within the time at our disposal we have attempted to comply with these terms of reference. The results appear in and throughout this report. As we see it, our main purpose was to inquire into the causes of the recent rise in the cost of living so that the facts of the situation and our analysis thereof should be available to the government.

During the course of our inquiry a number of matters came to our attention which affected particular fields and industries, and which can be dealt with separately from the basic factors. Regarding them we make the following observations:

Publicity

Although we recognize the dangers and difficulties involved, we are impressed with the importance of publicity in influencing business generally through exposing the occasional circumstances of high pricing, profiteering and restrictive practices.

Meat

Our study of the evidence before the Special Committee on Prices on the livestock industry has indicated that further consideration of the applicability of a carcass grading system for beef cattle is warranted. There seems to be little relationship between the live animal categories "choice" "good" or "medium" on which basis the producer sells his cattle, and the resulting grades of beef, "red brand", "blue brand", etc., which the consumer purchases. We therefore suggest that the government should examine the question of establishing a carcass grading system for cattle, similar perhaps to that presently in use for hogs.

Lumber

During our investigation of the lumber industry we found some evidence that grading procedure, particularly in eastern Canada, did not always seem to give sufficient protection to consumers in periods of high demand. Consideration might be given to the establishment of some uniform system of grading, especially in the more commonly used types and dimensions.

Consumer Credit

Our inquiry into Consumer Credit led us to believe that the consumer is inadequately informed about effective rates of interest by lenders. The consumer can be misled by such terms as "discount rates" which work out a good deal higher than apparent annual rates. We suggest that the effective annual rates should be stated clearly in loan contracts as well as in advertising literature.

Statistics

In view of the importance of the cost-of-living index in wage negotiations, etc., we believe the Dominion Bureau of Statistics should explore the possibilities of improvement in the index. There appears to be need for the development of a continuing program of sample surveys such as are now carried out at infrequent intervals. Thus when the articles in the base budget change in importance, or if new articles should be included, adjustments can be made to present a more accurate index number. Further, some system for the measurement of the changes in owner-occupied shelter should be established, as the present system of reckoning shelter costs gives an inadequate picture of the true costs. We are of the opinion that the Bureau should give consideration to including the cost of children's clothing in compiling the clothing group index in the cost-of-living index.

The lack of adequate and accurate statistics is one of the major obstacles to a knowledge of Consumer Credit. We suggest provision be made by the Bureau for broadening and refining the statistics relative to this important economic indicator.

In examining price changes the factor of productivity is extremely important. To use statistical information as a basis for conclusions on efficiency, etc., requires precise measurement of net production and of labour. Small discrepancies in the measure of either of these would lead to inaccurate conclusions. We believe that a statistical study of productivity in Canada should be made available as soon as possible.

We emphasize the recommendation of the Special Committee on Prices that the Dominion Bureau of Statistics publish periodically an analysis of the way in which the consumer's dollar is divided among the various productive and distributive processes having to do with the price of basic commodities.

We think that more adequate collection and publication of current information on the amount of corporate profits, possibly on a quarterly basis, might be undertaken by the appropriate government agency.

Dominion Companies' Act

In the Proceedings of the Special Committee and in our examination of the financial statements of a large number of companies we found a complete lack of uniformity in the quantity and quality of information given.

Because of general misconceptions due to the methods of presenting inventory valuations, we think certain disclosures should be made in financial statements. A statement of the basis of inventory valuation should be made along with any definitions such as "cost" or "market", if used, and the amount of any reserve deducted. It is imperative that an explanation of any change in the basic valuation of the inventory from that employed in the previous year be disclosed as well as the effect this change has had on profits. Finally, if costs are determined on the "last in first out" basis, or if the basic stock method of valuation is employed, the present day value of inventories should be indicated.

We suggest that the Dominion Companies' Act be amended to require that financial statements include:

Uniform inventory valuations, the disclosure of any changes made in inventory valuations from that in former financial statements, the profit and loss position of inventory, and the item of inventory reserve.

Disclosure of the amounts and purposes of all reserves, before the profit position for the period has been determined.

A statement of the aggregate profit and loss position of all unconsolidated subsidiaries.

We further suggest that statements of profit and loss and surplus be sent to all shareholders and that the auditor report whether in his opinion the statements fairly present the operations of the company for the period.

The Dominion government should, we think, obtain the co-operation of the Provincial governments to develop uniform financial reporting under the Companies' Act.

Public Accounts

We strongly recommend that the public accounts be presented in such a way that the net effect of government transactions is clear not only to the specialist, but to the man on the street.

Resale Price Maintenance

Throughout our inquiry we have been impressed by the degree to which individual manufacturers fix the resale prices of their products and so narrow the area in which price competition amongst wholesalers and retailers is operative. In view of the extension of this practice, we recommend that the Combines Investigation Commission give careful study to this problem with a view to devising measures to deal with it.

Exchange Conservation

The Emergency Exchange Conservation Act provides that import embargoes may be introduced to conserve exchange. There may be pressure on the government for retention of such embargoes beyond the period where their continuance can be justified for purely foreign exchange reasons. In our view import controls should not be used as a protectionist device.

General

The other important part of our analysis was the examination of those basic influences affecting every phase of our economy, and which are the subject of high government policy.

It is our conclusion, stated and implied throughout our analysis, that the main causes of the rise in prices since the war are to be found in these general and basic conditions. In the main the post-war price rise in Canada was a consequence of the war, of rising prices abroad, of large export demands financed to some degree by the Canadian Government, and of our capital boom accompanied as it was by an American capital boom. The effect of these all-pervading and powerful generating forces was offset or held in check to some extent by fiscal and monetary measures and by direct controls. Outside of exceptional cases we did not find in the behaviour of particular industries, individuals or groups a main cause of rising prices. This conclusion leads us to a discussion of public policy as it will affect prices in the future.

The government of Canada has adopted as a primary objective of public policy, the maintenance of a high and stable level of employment and income. This is an objective which in principle must be concurred in by all Canadians. But in practice it requires specific governmental action which may be less generally acceptable.

Such a policy implies positive action by government to mitigate the fluctuations in the volume of private business. It requires on the part of government, competence to judge correctly the state of business and to take such compensatory action as is required. This means that the government must be prepared to apply brakes as well as to provide stimulus.

Obviously such a policy cannot be carried through unless there is general support for this kind of government action. As we have said in several places in our report, government in a democracy cannot move too far ahead of public opinion. It is idle to talk about the responsibilities of government in connection with economic stability if the necessary action to achieve or maintain that stability is not acceptable to the community.

Although we accept and urge the importance of general fiscal and monetary policy we must emphasize the place of external trade in Canadian prosperity. In order to maintain the present standard of living, to utilize Canada's specialized resources, and to support the great capital investment which has been made to equip Canada for its place in the world economy it is vital to Canada that the advantageous international division of labour be maintained. We would, therefore, emphasize the importance of co-operation in trade matters with the other countries of the world, particularly with the United Kingdom and the United States.

Our inquiry has been concerned with an inflationary period; that is, a period of excess demand. Throughout that period it was the role of government policy to apply restraints, to pay off the public debt and to curtail expansion in the money supply. As we write this Report in early

1949, the outlook is far from clear. Inflationary pressures have abated, at least temporarily. The long sustained world-wide rise in prices may have run its course. External demands have lessened. The money supply generated by the war which once was so excessive, is now in closer balance with the supply of goods at present prices.

A government policy aimed at economic stability must be flexible, ready to move quickly to counteract either inflationary or deflationary tendencies as they arise or, better still, before they arise. We shall continue to be affected very largely by events abroad which are beyond our control, but there is much that can be done by sound fiscal and monetary action and in other ways to stabilize the level of demand. To encourage private spending, for example, by reducing taxes, or to embark upon public works which can be held in abeyance at a time when existing or anticipated demands press upon available supplies, does not make good economic sense. On the other hand, to adhere stubbornly to an anti-inflationary policy when the threat of inflation has passed is to run the even more serious risk of reducing the total output of goods and services below the level which it would otherwise attain.

In this connection, we have noted the exaggerated importance that seems to be attached to every change in the cost-of-living index. Even assuming a continuing high level of income and employment and a reasonable balance between total demand and total supply, the general level of prices will move up and down to some extent. At the present time, for example, a decline in consumers' prices would, we think, be a healthy development. It would not necessarily mean that the country was going into a slump. Similarly, a further rise in the cost-of-living index would not necessarily mean that a new phase of the inflationary spiral was under way.

Another important conclusion is that, in our view, general price control should not be relied upon as an important instrument for stabilizing prices in peacetime. There is no doubt in our minds that a general price ceiling would be most inadvisable unless there is a very great change in the present outlook. Selective price controls may be useful in exceptional cases. Price control in any form, however, is no substitute for action designed to bring over-all demand into line with over-all supply. It disguises inflation. It does not remove the cause of the trouble.

We have the honour to be,

Sir,

your obedient servants,

C. A. CURTIS

Chairman

HENRI C. BOIS

Commissioner

MARY SUTHERLAND

Commissioner

VOLUME II

REPORT
of the
ROYAL COMMISSION
on
PRICES



OTTAWA
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VOLUME II

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1

THE ECONOMICS OF RISING PRICES

THIS chapter is intended to serve as a background for the subsequent analysis of the facts of rising prices in Canada. We believe it will be useful at the outset to reach agreement on some basic definitions and to set down some elementary principles that may help in explaining why prices rise and the implication of the various corrective measures that could be adopted.

THE MEANING OF INFLATION

To begin with, we endeavoured to reach agreement on the meaning to be attached to that popular term "inflation". Because it is so surrounded with ambiguities, some economists have refused to use it at all. Mr. Graham Towers, the Governor of the Bank of Canada, when he appeared before the House of Commons Special Committee on Prices, said:

"I would sooner get away from using that word 'inflation', not from any great tenderness on the subject, but because it is so often misinterpreted. If the price level had been 100 and it goes to 102, you might say that that is inflation. On the other hand, I think so many people have thought of it as a very extreme situation such as took place after the last war in certain countries. To-day in a great many countries throughout the world, currency is worth from 1/8 to 1/1000 of what it used to be. I would sooner stick to the fact of our case which is that the purchasing power of our dollar in goods and services is less than it was in 1939 by the amount which is indicated by the price index."

However, the word is so commonly used not only by the public (including a number of witnesses before the Commission) but also by many students of prices that some discussion of its meaning can hardly be avoided. Furthermore, exploration of the meaning of inflation may be expected to throw light on the processes of inflation themselves.

Whatever differences there may be in the use of the term inflation, an expansion in the supply of money available for spending is usually implied. An expansion in the supply of money, however, does not always mean significantly higher prices. Under certain circumstances all or most of the "inflationary pressure" which might otherwise have resulted is relieved, not in the form of higher prices, but in the form of additional output. The best example is, of course, what happens during a period of recovery from a depression when new demands bring forth new production as idle men and machines are re-employed. Even during a period of high employment, expansion in the money supply may take place without significant price increases or with small price increases if it is accompanied by increasing output of the existing factors of production.

While related increases in money supply and output may be termed inflation ("expansion" seems a more appropriate term), common usage seems to reserve the term for conditions under which monetary expansion outpaces the expansion of output, if any. Under such conditions, prices are bound to rise unless—and this is an important qualification—there is a compensating change in the rate at which money available for spending is spent.

Thus, during World War II there was undoubtedly a considerable increase in the supply of money in Canada¹ but the rise in prices, even in the final stages of the war when output of civilian goods was most severely restricted, was of relatively modest dimensions. Looking back, Canadians are not inclined to think of the war as a period of inflation; rather they are impressed by the way in which prices were held steady. Yet expansion in money supply did greatly outpace expansion of civilian goods and services. Indeed, available output of some widely consumed articles like automobiles, refrigerators, washing machines, etc., fell to nothing. The explanation is that for various reasons, patriotism was one of the reasons, Canadians saved a larger proportion of the incomes remaining to them, even after paying higher taxes. A decision to wait until certain articles were again available was another. Controls which prevented people from spending more than ceiling prices on available merchandise and which denied business men access to materials, labour and equipment unless they were to be used for war purposes, was still another. The pressure which might have resulted from the spending of rising money incomes was suppressed.

In some senses, therefore, inflation does not necessarily imply rising prices. But to most people inflation has come to mean "price inflation" and it will be so used in this report unless otherwise indicated. It is the condition which arises when increased spending is accompanied by substantially less than a corresponding increase in output. Hence it must be reflected in a significantly higher general level of prices. Obviously, such a condition is most likely to arise in times of high or full employment, although it is to be observed that if scarcities of particular goods or services of general use, such as steel, become acute, competition for that particular item may drive up prices in the area affected and communicate itself throughout the whole economy. Some economists call this kind of inflation by the descriptive term, "bottleneck inflation".

To go one step further, what most people mean when they speak of inflation is a rise in the cost of living, that is in the prices of consumers' goods and services.² This is a helpful distinction but, as will appear from what follows, price rises in other than consumption goods markets may bear a vital relationship to the rising cost of living and it is just as well not to draw too sharp a distinction.

¹Cf. Chapter 6, Fiscal and Monetary Policy.

²One leading economist, Professor James D. Angell of Columbia University, denies that "increases in the prices of raw materials, of other producers' goods in general, or of anything else not bought by individuals for consumption are in themselves 'inflation'".

Before leaving the meanings of the term inflation, it may be helpful to comment on the particular point which led Mr. Towers to avoid the use of the term.

If people regard rising prices as a temporary phenomenon, which is likely to come to an end in the not-too-distant future or to be succeeded by a fall in prices, they will be content to keep some of their assets in liquid form, that is in bills, coins, bank deposits or in readily negotiable government securities. As a matter of fact, they may actually build up their liquid reserves so as to have enough to buy or replace needed articles at higher prices. (Retention by corporations of larger reserves for replacement or depreciation is a case in point). But if there is a widely held opinion that price rises may be long continued or even accelerated, holders of savings and receivers of current money incomes may distrust the future value of money to such an extent as to attempt, at their first convenience, to turn money units into some "real" asset whose "real" value will remain stable, or, preferably, increase as price levels rise. Carried to its limit this process becomes runaway or hyper-inflation, from which Germany, for example, suffered in the early 1920's, and which China and a number of other countries have endured during and after World War II.

In all periods of inflation there is probably a good deal of hedging against a further rise in prices which has the effect of accelerating the price rise itself. When the term inflation is used in this report, in reference to what has been happening in Canada, it does not, however, imply runaway inflation, but something very different in kind as well as in degree.

THE GENERATION OF INFLATIONARY PRICE MOVEMENTS

The point of particular significance that emerges from the foregoing discussion is that a general rise in prices, or price inflation, is a symptom of too much spending in relation to the available supply of goods and services. Or to adopt the expressive but rather overworked phrase, too much money is chasing too few goods.

How does it come about that too much money is chasing too few goods? The facts of the Canadian situation which led to the recent rise in the cost of living will be discussed at length in subsequent chapters of this report. Here a few general comments will suffice to indicate the nature of the problem.

In times of full employment (and this situation has prevailed in Canada for some time) all the labour and productive resources of the country are engaged in:

- (a) producing consumers' goods and services for domestic consumption,
- (b) producing non-consumers' goods and services for domestic consumption; that is, machinery, factory buildings, etc.,
- (c) working for governments (including selling goods to governments)
- (d) producing goods for export.

Suppose now that without any other change in the situation, an attempt is made to increase the quantity of labour and resources being used for any of these purposes. Quite clearly, assuming full employment, such an increase can only take place if less labour and fewer resources are used elsewhere.

The essence of an inflationary situation is that attempts are made by individuals and groups to attract increased quantities of labour and resources to their own use and that these attempts are resisted.

Consider, for example, what happens when, as at the end of a war, business men decide that the time has come to embark on a program of expansion or that repairs and replacements can no longer be deferred. With money previously accumulated or borrowed for the purpose, they go out to find the necessary additional labour, raw materials and equipment to do the job. Where are they to come from? Assuming full employment and no increase in productivity, they can come only from one or all of the other categories. That is, labour and resources must be withdrawn from the production of consumers' goods and services or from government use or from production for export, unless, of course, some of the requirements can be imported from abroad.

But, on the other hand, spending by business men for capital investment puts money into the pockets of wage and salary earners and business men who work on the projects or supply the materials.

So, unless adequate counter measures are taken, or there are some other offsetting influences, the chase begins. Business men, intent on expanding their productive facilities, endeavour to bid resources away from other uses and from each other. Everyone's income and ability to pay being just as great as before, however, there is resistance to this process of transferring resources. The resulting competitive bidding-up of wages and prices adds to incomes and to the general willingness to spend. Thus the spiral of rising prices moves upward.

Or consider what happens when prices rise in countries from which we buy or to which we sell. What this really means is that non-Canadians want to buy more of our goods or want to keep more of their own goods at home, either because their demands have risen or their alternative sources of supply have been reduced. The basic situation is no different from an internally generated inflation except that the competition for labour and resources is on a world-wide scale rather than on a national scale.

These are merely two illustrations of how an inflationary price movement can get underway and feed on itself. But they serve to show how difficult it is to find the "cause" of inflation.

The business man or farmer who expands does so because of a present or anticipated shortage of consumers' goods and services at home, or because of enlarged export markets. He can hardly be blamed for attempting to increase his productive facilities to meet the known and anticipated demands. But while labour and other resources are being used to build new

machinery and factories, they cannot at the same time be used to make shoes and build houses.

The business man who offers to sell for what he believes the market will justify is following normal and legitimate business practice, providing that he does not purposely restrict production to capitalize on a monopoly position or indulge in practices in restraint of trade which have the effect of holding prices at a level higher than they would have been had competition been permitted. The farmer who sells at the going market price is in much the same position.

Wage and salary earners, too, are following a natural enough course in striving to increase their earnings, for, on the one hand, they are faced with rising costs of living, while, on the other hand, employers may seem to be well able to afford a higher wage bill. Yet rising wages mean higher incomes available for spending, and, unless based on greater productivity, mean higher costs.

Consumers, for their part, have a normal human desire to maintain and, if possible, raise their standard of living. For some of them, increased spending is not a matter of choice but of necessity. Those who have incomes which they can either spend or save are not particularly conscious of contributing to inflation if they decide to buy the washing machine or car for which they have been saving or even to go into debt for this purpose on the strength of their expected incomes.

Even larger government expenditures may be unavoidable. When the general level of wages and salaries goes up, governments must follow to some extent at least or lose their employees and thus impair vital public services. It may also seem imperative to build new roads and bridges or to install a new public utility even though costs are rising. Most important of all, the international situation may call for foreign aid and large defense expenditures. Turning to so-called "transfer payments", it may be argued that it is inflationary for governments to put money into the hands of consumers in the form of family allowances, increased old age pensions, veterans' gratuities, re-establishment credits, etc., but from other points of view these are wholly justifiable and desirable expenditures.

In a country like Canada, which is so dependent upon foreign trade, external influences are of major importance in their effect on the internal price level.¹ When the world price of cotton goes up, Canadians must pay more or go without. The same is true of nearly all imported goods because Canadian consumption is only a relatively small fraction of total world demand. So it is with exports. When United States buyers are willing to pay more for newsprint or cattle, Canadian producers may expect consumers at home to pay equivalent prices.

The fact of the matter is that a serious rise in prices can occur even though everyone works efficiently and behaves in what seems to him or to her to be a perfectly reasonable manner. There may be no villains in the piece, only honest, hardworking citizens.

¹Cf. Chapter 4, External Influences on the Canadian Price Level.

REMEDIES FOR INFLATION

"Rising prices can, therefore, be cured only by removing the excess of demand over supply. This means either increasing the rate at which goods are being offered in exchange for money, or decreasing the rate at which money is being offered in exchange for goods, or both together. Any other attempt to cure, no matter how different it looks, can succeed only if it somehow or other increases the supply of goods or decreases the rate of spending."¹

While the principle can be stated in these elementary terms, the working out of an appropriate line of action to remove or reduce the excess of demand over supply is by no means easy, for there are many conflicting considerations, political and social as well as economic, to take into account.

It is obviously better, other things being equal, to increase the supply of goods to be enjoyed than merely to decrease the rate of spending. Therefore, the first and primary aim of public policy during inflation should be to remove any unnecessary hindrances in the way of increased supply, such as restrictive trade practices or unnecessary import barriers, and to give every possible encouragement to increased efficiency of production.

Without in any way underestimating the value of efforts to remove restrictions on trade and to improve production efficiency, it may be assumed, however, that the results during a period of full employment will be small relative to total output and can hardly be expected to come quickly. Supplies available may, of course, increase, not as a result of greater production within the country or the removal of barriers to trade, but simply as a result of the restoration of production in countries which are recovering from the effects of war. If demands still outrun supply, the inflation can be held in check only by reducing the rate or flow of spending.

Unfortunately this is not primarily a matter of curtailing what might be called unnecessary expenditure, although such curtailment will undoubtedly help and should be encouraged. It is likely to be a matter of curtailing expenditure which most of those concerned consider necessary and certainly desirable. For this reason not too much reliance can be placed upon voluntary restraint to check a strong inflationary movement. As we have pointed out before, those who should exercise the restraint find it difficult to believe that their particular activities, which from their own point of view appear quite reasonable, should be curtailed.

"If consumers could be persuaded by appeals . . . to spend less and save more, if business men could be persuaded to let their inventories run down and to postpone all plant extensions not urgently necessary; if farmers could be persuaded to send more cereals to market and feed less to livestock; if bankers could be persuaded to cut down on loans to business or to consumers; if labor leaders could be persuaded not to ask for higher wages—the inflation could be brought to a halt without any exercise beyond present levels of the anti-inflationary

¹A. P. Lerner, "Rising Prices", *The Review of Economics and Statistics*, February, 1948, p. 24.

powers of the federal government. As I have already indicated, I don't believe that there is any experience with inflation, past or recent, foreign or domestic, to warrant faith in the efficacy of this method. It is likely, moreover, that extensive resort to it creates psychological obstacles, on the part of the exhorters against adoption of less unctuous methods, and on the part of those exhorted against recognition that more coercive measures are required and should be submitted to."¹

Hence, if a serious effort is to be made to check rising prices, the people as a whole, acting together through the instrument of government, must agree to apply restraints of general application. In some respects inflation is like the traffic problem in a big city. It can only be dealt with effectively by the enforcement of rules that keep motorists from getting in each other's way. So that there may be no misunderstanding, let us say at once that voluntary restraint is most desirable during an inflation. For, to return to our simile, traffic rules are of little avail unless motorists use ordinary common sense in their driving.

Leaving aside for the moment questions of constitutional jurisdiction, government, in the widest sense, is in a position to reduce the volume of spending by:

- (i) levying higher taxes which have the effect of leaving less money in the hands of the public for spending;
- (ii) discouraging borrowing and the raising of capital; such as by higher interest rates and by putting indirect pressure on the banking system to curtail lending;
- (iii) encouraging saving and the deferment of expenditures; such as by government bond-selling campaigns and by postponement of its own capital expenditures;
- (iv) controlling prices, wages and supplies and thus making it illegal for people to spend as much as they would otherwise have done.

However much these four methods differ from each other, they have one element in common. All four are extremely difficult to apply and are bound to encounter opposition. While there is widespread support for the idea of halting an upward movement in prices, experience has shown that there is a good deal less support for the particular things that have to be done to put the idea into practice.

Taxes are a case in point. It can be demonstrated that additional taxation of the appropriate kind does not really impose any additional burden on the community for it merely takes away money that would otherwise have gone into paying higher prices. Nevertheless, "there will always be resistance to taxation if only because of the feeling that it would be very pleasant for anyone if it were only other people who were taxed to keep spending down".²

¹Jacob Viner, "Can We Check Inflation", *The Yale Review*, December, 1947, No. 2, p. 208.

²A. P. Lerner, *Loc. cit.*, p. 25.

Higher interest rates encounter opposition of a different kind. Those who invest in government bonds do not like to see a drop in their market value, which is the obverse of a rise in interest rates. Nor do those desiring to borrow money, and this includes the government itself, welcome having to pay higher rates of interest. If anyone is inclined to doubt such a statement, consider what the reaction would be to an increase in the rate of interest on government sponsored housing loans.

In applying fiscal and monetary measures (which include the first three of the methods listed above) the government always has to be careful that it does not produce effects opposite to those which it intended. While taxes, for example, undoubtedly reduce demand, they may be carried to the point where they have an important effect on incentive and thus interfere with supply. Moreover, in its anxiety to mitigate the evils of inflation, the government must be careful not to go too far and bring upon the community what is an even greater evil, serious unemployment.

The fourth method, prices and wage control, and the control of supply, raises considerations of a different order. Whatever difficulties there may be in applying fiscal and monetary measures and of securing a sufficient degree of acceptance for them, the government is not directly involved in the price-making process. Fiscal and monetary measures are designed to reduce the over-all excess of demand. Their effect on prices is indirect and general, like the effects of a decline in demand occurring for any other reason. Direct controls, on the other hand, simply forbid the excess of demand to be reflected in higher prices. They must be administered and enforced and they inevitably involve some degree of government control of production and distribution.

As Mr. K. W. Taylor, Chairman of the Wartime Prices and Trade Board, said to the Special Committee on Prices:

“Our economic system can be fairly accurately described as a ‘free economy’—predominantly based upon and organized by a system of free prices—free that is within the general framework of the law. In a free economy prices constitute the main guide to production, and are at the same time the balance-wheel of supply and demand. Rising prices for one commodity indicate relative shortage and invite both increased production and economy in consumption; falling prices, in turn, indicate relative surplus and produce a tendency to ease up on production and to increase consumption. In other words, it is this constant flexibility of prices that helps to keep production and consumption in reasonable balance and harmony.

If a community embarks upon a system of fixed or administered prices, it must invent some substitute for the flexible price system as a means of finding out what people really want, and what they want more of, and what they want less of. Failing such a substitute, the principle of freedom tends to disappear, and the government has to decide what will be produced and in what

quantities. The free price system has many imperfections, but there has not yet been developed any other system that will preserve in essence what I call a 'free economy'."¹

In subsequent chapters we shall discuss at considerable length how the Canadian government has used these various methods of restraining inflation and how they might be used in the future. Enough has been said to indicate the general nature of the considerations involved, which is the purpose of the present chapter.

¹Evidence, Special Committee on Prices, pp. 60-61.

2

THE COURSE OF PRICES AND NATIONAL INCOME

SITUATION IMMEDIATELY PRECEDING THE OUTBREAK OF WAR

THE economic situation in Canada at the outbreak of war was not one in which resources were fully employed. It may be easier to picture the position if we recall briefly what had taken place since the economic collapse of 1929. During the early 'thirties Canada, along with the rest of the world, was in the throes of a depression. The demand for goods had shrunk, prices had declined sharply, production was at a low ebb and unemployment, with its consequent social evils, was widespread and severe. Business profits were low and the outlook for future profits was either poor or, at the best, uncertain. It should be borne in mind that the level of prices is not of great significance in itself; it is of importance only in relation to other factors. To the consumer what matters is the trend of prices in relation to his income. It is quite conceivable that a slightly higher price level might accompany or even stimulate such an increase in economic activity that incomes would rise by a substantially greater degree. To the producer the important relationship is between prices and production costs. Normally in a depression most producers find that they cannot reduce their costs as fast as prices are falling, hence the decline in profits.

From 1933 to the summer of 1937 business steadily improved. The demand for goods increased and simultaneously prices rose. With this recovery of prices, profits and the anticipation of profits also recovered and business activity expanded very materially. Even by 1937, however, the point had not been reached where many industries found that the demand for their product was in excess of their capacity to meet it with their existing plant and equipment. Consequently there was relatively little construction of new plant. In the summer of 1937 this trend towards recovery was abruptly interrupted by an extremely sharp business recession in the United States, which spread to Canada. During the spring of 1938 this recession had reached its low point and the recovery trend was resumed, but more slowly than previously.

As a result Canada, when confronted with war in September, 1939, was no longer in a depression but was nevertheless still far from experiencing what may be termed "conditions of prosperity". There existed what might be called by a more descriptive term, "underemployment of resources". Unemployment was still considerable. Adequate records in all spheres of economic activity were not available at that time, but subsequent studies have estimated that in June, 1939, there were approximately 895,000 unemployed, or 17.1 per cent of the civilian labour force.¹ Few plants were

¹Appendix to the Budget, 1948-9. For comparison, the unemployed as at September 4, 1948, were estimated at 67,000, 1.3 per cent of the civilian labour force.

operating at full capacity, and consequently there was still little incentive for new industrial construction.

There was also little incentive for residential construction, because, while the increase in income which had taken place since 1931 had caused many families who had been living together to "undouble" and had thus reduced vacancies, there was still in general, ample living accommodation for those who required it. This low level of activity in the construction industry was a concomitant of the general underemployment of resources, depressed prices and the high percentage of unemployment.

Canadian agriculture was in a position of serious disequilibrium. Farm prices had recovered much less of the decline than had prices in general. In 1939 the Canadian general wholesale price index stood at 75.4 on the base 1926=100, while the index of wholesale prices of Canadian farm products, on the same base, stood at only 64.3. The reason for this lag in the farm price index can be attributed mainly to field crops, for that index stood at 54.2 as compared with 81.2 for the index of animal products prices. This failure of grain prices to recover was a major cause of the low level of agricultural income and this had important social consequences as well as economic repercussions. The latter extended to manufacturers, distributors, transportation and finance companies, and in fact to almost all sections of the Canadian economy.

Two important conclusions emerge from this brief survey of the Canadian economy as it was in 1939. The first is that the situation then existing was not one to which anyone would wish to return. Consequently since a price level is to a considerable extent the result of prevailing economic conditions, the Canadian price level in 1939 should not be regarded as a proper economic one against which to assess the merits or demerits of the present price level.

The second conclusion is that there was no immediate danger of any general inflationary pressure, for there were ample unemployed plant and labour to permit a considerable expansion of the production of most goods and services; this provides a background for much of the discussion of wartime developments in the following chapters. The imminent risk, in fact, was that there might be deflation and an increase of unemployment resulting from business men cancelling prospective plans due to the uncertainties caused by the outbreak of war. There were, however, certain specific commodities, for example sugar, which were normally obtained mostly from abroad and where an immediate interruption of supply was threatened. What was described in a previous chapter as "bottleneck inflation" could therefore have taken place, and furthermore, opportunities presented themselves in these and other cases for excessive pricing. Both bottleneck inflation and profiteering could have had highly disturbing effects, as is described in other chapters, and in general would not have raised prices in these commodities where some increase was desirable or would have raised them to an extent far greater than desirable.

THE COURSE OF PRICES SINCE 1939.

Description of Two Main Indicators of the General Price Level

The two main indicators of the general price level are the cost-of-living index and the general wholesale price index. The cost-of-living index measures changes in the level of retail prices of goods and services commonly used by urban wage-earner families. Prices are obtained in stores and other retail outlets on the first of each month. They are then sent to Ottawa where they are submitted to the statistical process of weighting and averaging in order to arrive at a single figure which represents the combined effect of all of the individual price changes. The cost-of-living index is supplemented by a farm cost-of-living index which runs closely parallel to it. Both these indexes are described in detail in Chapter 1, Vol. III, the cost-of-living index.

The general wholesale index measures changes in the price level of a wide variety of primary and manufactured commodities such as wheat, flour and bread, pig iron, steel and hardware, lead, copper and zinc, lumber, wood pulp and newsprint, textile raw materials and fabrics, coal and a variety of chemicals.¹

At the present time the cost-of-living index is approximately 60 per cent above pre-war and the wholesale index is 105 per cent above pre-war. But as has been stated above, the period 1935 to 1939 which is used as a base period for these indexes was one of extremely low prices. Chart I shows that in terms of the longer historical perspective, prices in the base period were considerably below the remarkable plateau shown from 1922 to 1929. The chart also shows that both wholesale and retail series had not, in 1947, reached the same heights as shown in 1920, although the cost-of-living index subsequently exceeded its 1920 peak.

From 1913 to the peak in July, 1920, the cost-of-living index rose from 79.1 to 150.6, an increase of 90.5 per cent. From 1939 to September, 1948, it rose from 101.5 to 158.9, an increase of only 56.6 per cent. In other words, the extent of war and post-war inflation as measured by the cost-of-living index, has been smaller than in the earlier period. A similar result is obtained by a comparison of wholesale price indexes for the two war and post-war periods, when they are examined with respect to their pre-war standings. The general wholesale index rose from 83.0 in 1913 to 212.6 in July, 1920, that is, by 156.1 per cent, as compared with the smaller increase of 109.8 per cent between its standing of 97.8 in 1939 and 205.2 in September, 1948.

¹Approximately five hundred carefully specified wholesale commodity prices are entered each month. They are obtained directly from buyers or sellers in the majority of cases, and secondary or published sources such as trade journals are consulted only in exceptional cases. Terminal markets, organized produce or livestock exchanges and other established pricing points are consulted in a number of important cases. The price as at the fifteenth of each month is taken for most items, with monthly averages being used to represent the more sensitive commodity markets. These prices are then weighted and combined to give the various groupings shown in the tables. The weighting system is representative of quantities of domestic production marketed or exported, plus imports, with modifications to prevent pyramiding of weights at various stages of processing.

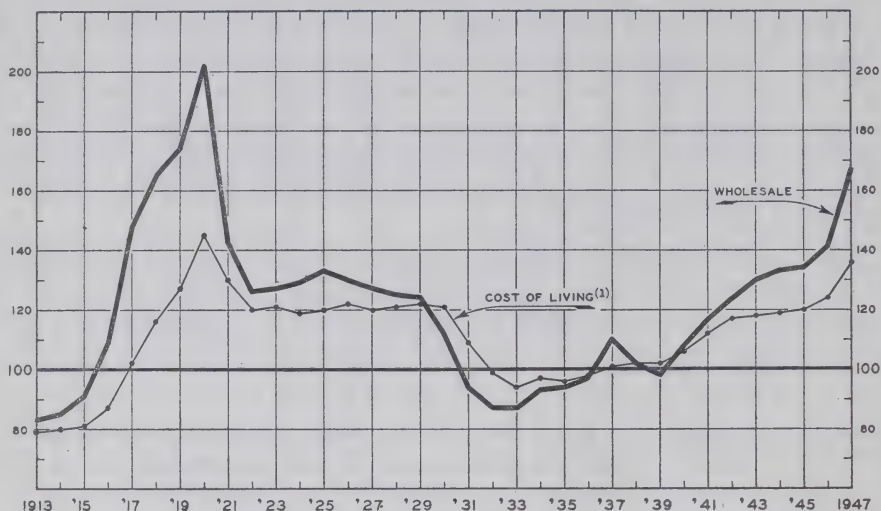
An explanation of the weighting system and the method of treatment of subsidies and a complete monthly record of the main commodity price indexes are available in Wholesale Prices Annual Supplement, 1946, Dominion Bureau of Statistics, Ottawa, 1947.

CHART I

WHOLESALE AND RETAIL PRICE INDEXES

BY YEARS, 1913 TO 1947

(1935 - 39 = 100)



Source: Dominion Bureau of Statistics, Ottawa.

- (1) The cost-of-living index is used in lieu of a retail price index. Tests show that a retail price index especially constructed for deflating retail sales will move in close conformity to the cost-of-living index and especially to that part of it which is published as "commodities only in the cost-of-living index". The latter is shown at page 24.

Changes in General Price Levels, 1939 to September, 1945

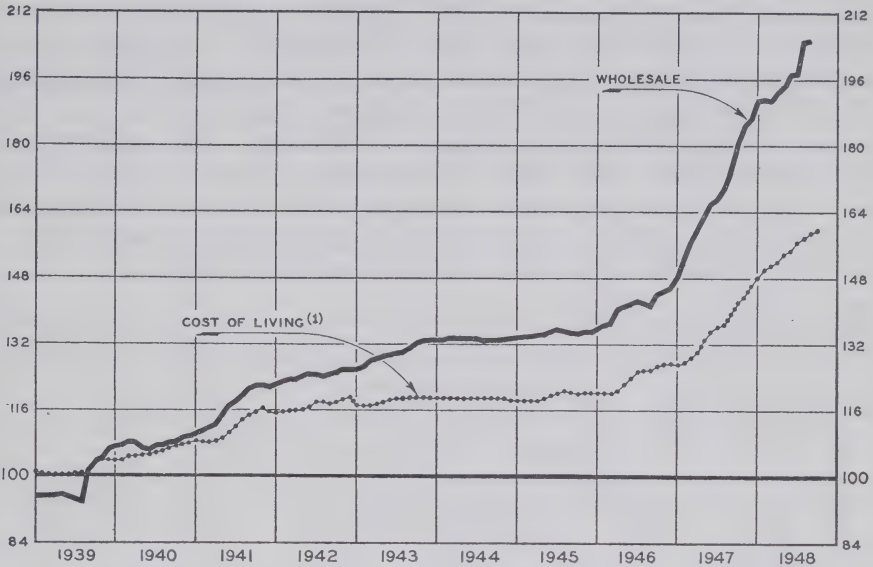
There was a small flurry in prices between August and October of 1939. The wholesale index rose 10 points and the cost-of-living index three points. One of the important causes was the increase in grain prices. The foreign exchanges had an influence as well. Exchange control was instituted on September 15, 1939. The Canadian dollar was fixed at a 10 per cent discount in terms of the United States dollar, and as a result, exporters received from the Foreign Exchange Control Board \$1.10 Canadian for each United States dollar they realized on their sales. Articles such as pulp, newsprint, shingles and non-ferrous metals were priced in export markets in the general wholesale index, and the conversion from United States dollars to Canadian dollars at the new rate caused part of the jump in the wholesale index.

There was a minor pause in these indexes at the time of the fall of France, but they soon began to climb at an accelerating pace. The next point to notice on the graph is the small drop in prices in November, 1941. By this time the wholesale index was up 20 points and the cost-of-living

CHART II

WHOLESALE AND RETAIL PRICE INDEXES

(1935-39=100)



Source: Dominion Bureau of Statistics, Ottawa.

(1) See footnote Chart I.

index 16 points. Chart II shows a small drop in the next two months for both series and this was due to the establishment of retail price ceilings. Prices were established at their September 15 to October 11 maxima. Subsequent increases were controlled and they were much less rapid. The drop in the cost-of-living index at the end of 1942 was due to the consumer subsidy of two cents a quart on milk.

From 1942 onward the cost of living remained fairly constant. The price line was held for nearly four years, with the result that by September, 1945, the cost-of-living index had gained less than three points. During this time, however, heavy pressures were gathering, stemmed only by large scale subsidies and the willingness of the business community to submit to wartime controls. Chart II shows that the general wholesale index continued to climb even though retail prices did not. By September, 1945, the general wholesale index stood at 134.

September, 1945, to September, 1948

The growing disparity between wholesale and retail price levels was checked after September, 1945, and thereafter the two indexes ran a more

parallel course. There was a period of hesitancy, for eight months, while the wholesale index held steady near 134 and the retail index held close to 120.

The return to par of the Canadian dollar in July 6, 1946, modified but did not stop the upward trend of the general wholesale price index. Imports were cheaper but this saving was partly taken up by gradually increasing import prices, partly by larger profit margins for importers, and reduced subsidies. The general wholesale price index cannot be used to explore these factors separately. This index contains the prices of goods offered for sale by importers rather than the import prices paid by them. In a few cases (pottery, carbon black, crude oil and sulphur are among the few covered by the sample) the prices of the imported articles did show a temporary decline but soon regained or exceeded their former level. Newsprint and pulp exporters apparently raised their United States prices in order to cover their reduction in terms of Canadian dollars realized.

By September, 1946, a year later, the general wholesale index was at 142 and the cost-of-living index at 126, rises of eight and six points respectively. At this time price control on all items except sugar, cotton and rents was removed in the United States.¹ The effect on prices of our imports from the United States was noticeable. Partly because of this, our wholesale and retail indexes began to increase at the rapid rate of approximately two points per month. A slight recession in food prices in the early spring of 1947 was sufficient to halt the general indexes for a month. This pause lasted three months in the United States and it was a common view then that inflation was over, that a plateau of level prices was about to take form.

The year 1947 had been one of gradual decontrol and removal of subsidies. By December, 1947 the outline for decontrol was practically complete. With the exception of rents, sugar and its products, certain items affected by the emergency import control program and items more or less directly affected by the British food contracts, such as bacon, flour and wheat, decontrol was completed by January, 1948.

The general wholesale index rose from 174 in September, 1947, to 205 in September, 1948. The cost-of-living index rose from 139 to 159 during the same period. These were larger than previous annual increases, reflecting the increased inflationary pressures.

Comparisons with United States and United Kingdom Price Indexes

Wholesale and retail price indexes are calculated by much the same technique in Canada, the United States and the United Kingdom. The weighting systems differ according to the different consumption habits and industrial structures, but the methods used are in effect the same, so that it is reasonable to use these indexes for purposes of comparison.

¹Cf. Chapter 3, Price Control and Rationing.

Prices in the United Kingdom have risen the most. Their retail price index may be estimated at approximately 75 per cent above pre-war¹ and their wholesale index reads 221.6 at September, 1948, on a 1935-1939 base. The recent change in their retail price index, or cost-of-living index as it was formerly called, is explained in detail in a footnote to Table 3 in the Statistical Supplement (Volume III). In brief, the British discontinued their cost-of-living index in June, 1947, when it became apparent that its list of contents was no longer adequate to measure changes in the level of retail prices. A new index was begun but there was no official overlap with the old one, or with pre-war prices. Incidentally, the rise in the British price level has been a controlled one, to the present time.² Their controls include subsidy payments, allocation of supplies, and detailed import-export arrangements.

On the same pre-war base of 1935-1939=100, the United States has a consumer price index reading 173.6 at September, 1948, and a wholesale price index of 209.1 at the same date. Canadian prices have gone up less than those of Great Britain or the United States. The indexes in Canada are 159.6 for the retail and 205.2 for the wholesale. Price levels in other countries might be mentioned briefly. The other Dominions, particularly Australia and New Zealand, have experienced less price rise, their cost-of-living indexes being at least 10 per cent below the Canadian index at September, 1948. European countries have experienced varying degrees of inflation and in some cases hyper-inflation. In general, those suffering most from the war were hardest hit by the subsequent and combined effects of monetary expansion and wartime dislocation of the machinery and channels of production and trade. Several of them, particularly Denmark, Sweden, the Netherlands and Norway, now appear to have stabilized their price levels. The only point to be made in this brief account of Canadian and other price levels is that we are relatively well off by comparison.³

Wholesale Price Changes, 1939 to 1945

Wholesale prices in 1939 had recovered somewhat from the lowest points of the depression in 1933 and 1934, but they were still approximately 20 per cent below their pre-depression levels. Many of them had recovered by 1937, only to slip back again in the recession of 1938. The incidence of depression had been most severe for those raw materials and commodities which were traded in world markets. Wheat averaged 96 cents per bushel during the period 1935 to 1939. Steers at Toronto averaged \$6.17 per cwt. Hogs sold for \$11.97 per cwt. Bacon for 26 cents per pound. Newsprint averaged \$38.29 per ton. Fir dimensions such as 2 x 4 sold for \$16.00 per thousand board feet.⁴ The general wholesale price index on a 1926 base stood at 75.4 in 1939. Canadian farm products were at 64.3 per cent of their 1926 average, being held down particularly by the field products at 54.2, as contrasted to the animal products at 81.2.

¹The unofficial estimate given was prepared by Mr. R. G. D. Allen and published in the London and Cambridge Economic Service Bulletin for February, 1948.

²Autumn, 1948.

³Further detail on price series of all countries may be found in the United Nations Statistical Review (monthly).

⁴Further examples, together with present prices, are given in Table 6 of the Statistical Supplement in Vol. III.

Other price indexes were considerably higher. The iron and steel group in 1939 stood at 98.5 per cent of its 1926 average. Non-metallic minerals such as coal and petroleum averaged 85.3.

In summary, some prices were quite low in terms of their long run averages, while others had nearly recovered. The year 1939 was not one of those years such as 1926, when an even flow of production and an even balance of the forces of demand and supply all combined to create a stable price structure. The period from 1922 to 1929 was one of expanding production, of housebuilding and roadbuilding, of rapid growth in automobile assembly and related factories, and of the expansion of electrification. The stable price level was without doubt an important factor in the gains in output and efficiency which occurred during the period.

With these considerations in mind we may now proceed to examine the details of behaviour of wholesale prices from 1939 onward.

The main classifications of the wholesale price record are shown in the following table. In general, those that were lowest in 1939 subsequently rose most rapidly. By September, 1945, field products of Canadian farms had risen by 100.7 per cent, or from 54.2 to 108.8. Wood and paper products had increased from 79.2 to 120.5, that is, by 52.1 per cent.

TABLE 1
WHOLESALE PRICE INDEX GROUPS
1939 TO SEPTEMBER, 1945
(1926=100)

	1939	September 1945	Per Cent Increase September ¹ 1945 over 1939
General Index	75.4	103.3	37.0
Vegetable Products	63.7	96.3	51.2
Animal Products	74.6	107.7	44.4
Textile Products	70.0	91.8	31.1
Wood Products and Paper	79.2	120.5	52.1
Iron and Steel Products	98.5	117.1	18.9
Non-ferrous Metal Products	71.3	78.9	10.7
Non-metallic Mineral Products	85.3	101.4	18.9
Chemical and Allied Products	79.8	99.2	24.3
Producers' Goods	70.4	100.3	42.4
Consumers' Goods	75.9	97.9	29.0
Building and Construction Materials	89.7	127.0	41.6
Raw and Partly Manufactured	67.5	105.2	55.9
Fully and Chiefly Manufactured	75.3	94.0	24.8
Canadian Farm Products, Total	64.3	112.8	75.4
Field	54.2	108.8	100.7
Animal	81.2	119.5	47.2

Source: Table 4, Chapter 13, Vol. III, Statistical Supplement.

Wholesale Price Changes, September, 1945, to September, 1948

From September, 1945, to September, 1948, the general gain continued. But there was a balancing out among the various groups so that those which had previously risen most rapidly slowed their rate of increase and those which had not previously risen to a large extent now showed very large increases. For instance, field products of Canadian farms increased by only seven per cent, whereas animal products increased by 57.7 per cent. Non-ferrous metals, the index for which had held steady during the war period, increased by 97.5 per cent. Textile products rose 74 per cent, but wood and paper products had previously shown a larger increase and during this second phase they increased only 57.1 per cent.

The following table shows the main groups of wholesale prices at September, 1945 and September, 1948.

TABLE 2
WHOLESALE PRICE INDEX GROUPS
(1926=100)

	September 1945	September 1948	Per Cent Increase September, 1948 Over September, 1945
General Index	103.3	158.2	53.1
Vegetable Products	96.3	138.5	43.8
Animal Products	107.7	178.4	65.6
Textile Products	91.8	159.8	74.1
Wood Products and Paper	120.5	189.3	57.1
Iron and Steel Products	117.1	165.0	40.9
Non-ferrous Metals	78.9	155.8	97.5
Non-metallic Minerals	101.4	137.1	35.2
Chemical and Allied Products	99.2	126.8	27.8
Producers' Goods	100.3	161.4	60.9
Consumers' Goods	97.9	143.8	46.9
Building and Construction Materials	127.0	200.2	57.6
Raw and Partly Manufactured	105.2	162.7	54.7
Fully and Chiefly Manufactured	94.0	143.8	53.0
Canadian Farm Products, Total	112.8	143.4	27.1
Field	108.8	116.5	7.1
Animal	119.5	188.4	57.7

Source: Table 5, Chapter 13, Vol. III, Statistical Supplement.

The process of averaging which is necessary to arrive at the above group indexes conceals several outstanding cases of individual price changes. These are given in detail in Statistical Supplement in Vol. III, Tables 5, 6 and 7. The six highest indexes for sub-groups of the general

wholesale index, on a 1926 base, at September, 1948, were as follows:

Vegetable Oils	320.5
Tea, Coffee, Cocoa	214.4
Livestock	279.1
Lumber	273.7
Lead, etc.	219.2
Coke	219.2

The lowest indexes were as follows:

Rubber and Products	73.6
Vegetables (including potatoes)	92.2
Furs	63.6
Rayon Fabrics	97.1
Rayon Yarns	63.6
Building Stone	80.2
Inorganic Chemicals	94.0
Explosives	85.8

Among individually specified items, the index for steers on a 1926 base was 335.7 in September, 1948. They then sold for \$21.75 per cwt. Hogs were at \$32.88 per cwt. and bacon at 60 cents per pound in Toronto wholesale markets. The fir dimensions previously mentioned were priced at \$52.50 per thousand board feet as compared with \$16.20 per thousand in 1935-1939. Lead had increased from \$8.16 per cwt. to \$17.82. Wheat sold domestically for \$2.05 per bushel, less subsidies drawn by millers. It sold to the United Kingdom for \$2.05 per bushel and to others the "Class II" or "commercial export" price was \$2.37 per bushel in September, 1948.

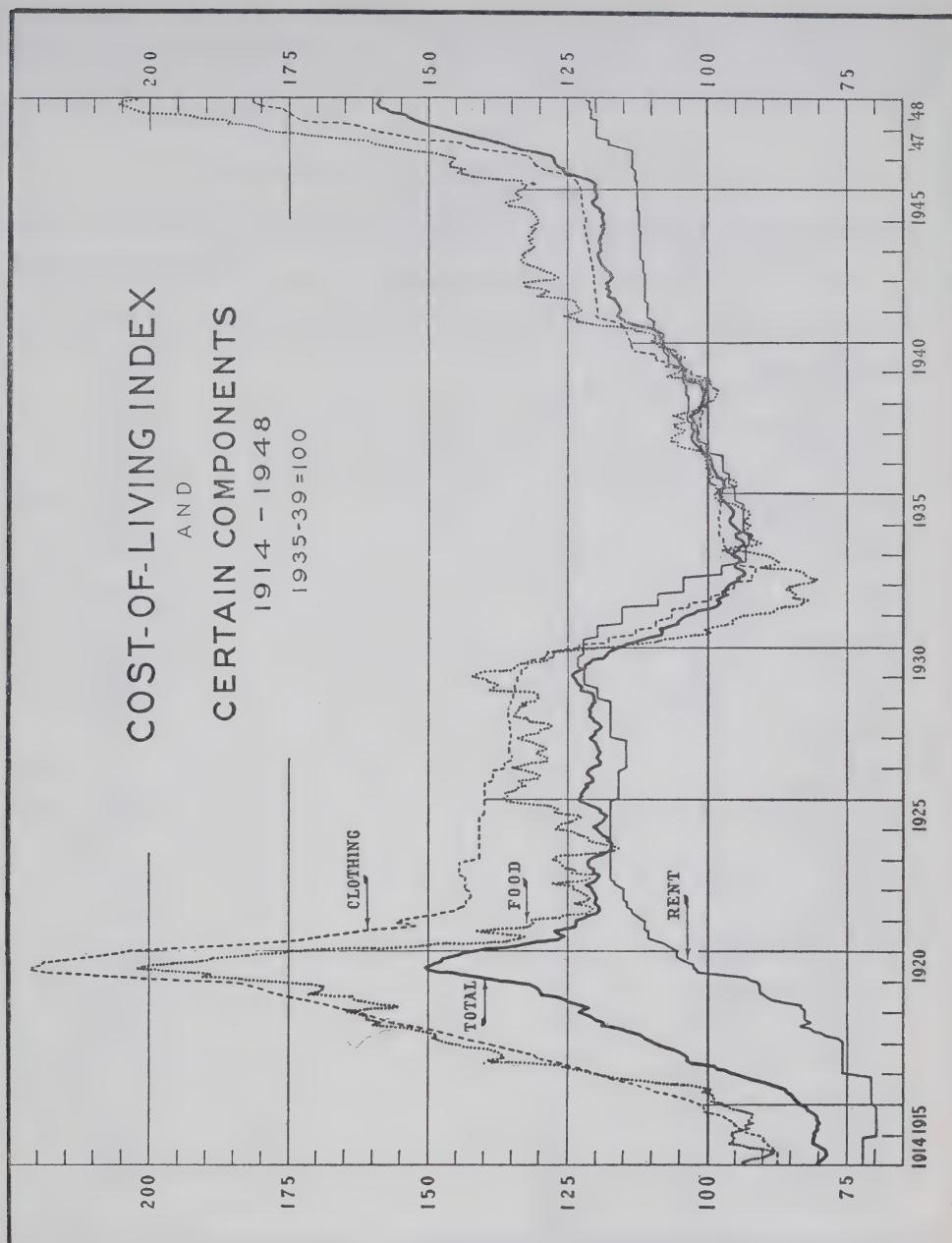
Retail Price Changes, 1939 to 1945

The cost-of-living index contains both commodities and services. Among the services, rent is the largest item and inasmuch as it has been subject to control, it has had the effect of holding down the general average. With rent and services disregarded in the index, the remaining items give a special index for commodities only. By September, 1945, this index had risen to a level of 126.9. Foods were the major contributing factor in the general price rise. They were 34 per cent above pre-war and among the foods, meats were 63 per cent above pre-war.

Three of the main components of the cost-of-living index, food, clothing and rent, are shown on Chart III.

In the following list, cereals were still low in 1945, largely due to the flour subsidy, which held domestic wheat at \$1.25, flour at the equivalent of 77 cents per bushel of wheat, and bread at eight cents to 10 cents per loaf, depending on size. The remainder of the items were nearly all within 10 per cent either way of the general index of 119.9. This close grouping about the control point stood in contrast to the wholesale record, which showed very wide variations. There were three main reasons for the

CHART III



Source: Dominion Bureau of Statistics, Ottawa.

smaller differences among retail series. First, ceilings were applied with most rigour at the retail end. Second, wholesale prices of raw materials were traditionally more variable, many of them depending on world markets. Further, as has been stated, certain of them were unduly depressed in 1939 and could, therefore, when controls were instituted, be afforded a larger increase in order to obtain expanded output. Third, producer and

other subsidies were paid on certain items in the wholesale record and these were included as part of the price for purposes of the general index calculation.¹

TABLE 3
COST-OF-LIVING INDEX AND SUB-GROUPS
(1935-1939 = 100)

	September, 1945 Indexes
TOTAL	119.9
Commodities only	126.9
Foods	134.2
Dairy Products	112.4
Eggs	155.8
Cereals	99.7
Meats and Fish	163.4
Dry Groceries	134.1
Vegetables	145.1
Fruits	148.6
Rents	112.1
Fuel and Light	106.7
Coal	118.6
Coke	124.1
Gas	105.1
Electricity	86.3
Clothing	122.2
Men's Wear	126.5
Women's Wear	122.7
Piece Goods	119.3
Footwear	112.5
Home Furnishings and Services	119.4
Furniture	127.9
Floor Coverings	119.9
Furnishings and Textiles	134.2
Hardware	127.5
Dishes and Glassware	122.7
Telephone	103.3
Laundry	102.9
Cleaning Supplies	107.6
Miscellaneous	
Health	109.4
Personal care	111.3
Transportation	109.4
Recreation (inc. tobacco)	116.9
Life Insurance	99.9

Source: Table 9, Chapter 13, Vol. III, Statistical Supplement.

Retail Price Changes, September, 1945 to September, 1948

The cost-of-living index was at a controlled level of 119.9 in September, 1945. By September, 1948, it had risen to 158.9, a rise of approximately 40 points, most of which occurred during 1947 and 1948. The rise was

¹See "Wholesale Prices, 1913-1946, Annual Supplement", Dominion Bureau of Statistics, Ottawa, 1947, p. 39. The Canadian Farm Products Prices Index includes producer subsidies and participation payments when they are announced.

most rapid in the fall of 1947, two or three points every month. Contributing items are detailed in the following table where it will be seen that the "commodities only" components of the index were considerably higher, at 183.5, in September, 1948.

TABLE 4
COST-OF-LIVING INDEX AND SUB-GROUPS
(1935-1939 = 100)

	September 1945	September 1948	Per Cent Increase September, 1948 over September, 1945
TOTAL	119.9	158.9	32.5
Commodities only	126.9	183.5	44.6
Foods	134.2	203.9	51.9
Dairy Products	112.4	196.9	75.2
Eggs	155.8	185.3	20.5
Cereals	99.7	145.8	44.2
Meats and Fish	163.4	279.5	71.1
Dry Groceries	134.1	167.2	24.7
Vegetables	145.1	167.2	15.2
Fruits	148.6	156.6	6.7
Rents	112.1	121.0	7.9
Fuel and Light	106.7	128.5	20.4
Coal	118.6	160.7	35.5
Coke	124.1	171.5	38.2
Gas	105.1	100.1	decline
Electricity	86.3	85.2	decline
Clothing	122.2	179.9	47.2
Men's Wear	126.5	196.5	56.9
Women's Wear	122.7	167.3	36.3
Piece Goods	119.3	192.6	61.4
Footwear	112.5	160.9	43.0
Home Furnishings and Services	119.4	164.2	37.5
Furniture	127.9	187.8	46.8
Floor Coverings	119.9	147.9	23.4
Furnishings and Textiles	134.2	204.1	52.1
Hardware	127.5	181.7	42.5
Dishes and Glassware	122.7	174.4	42.1
Telephone	103.3	103.7	.4
Laundry	102.9	131.8	28.1
Cleaning Supplies	107.6	163.8	52.2
Electrical Equipment	a	a	a
Miscellaneous	109.5	124.4	15.6
Health	109.4	131.1	19.8
Personal Care	111.3	144.7	30.0
Transportation	109.4	117.6	7.5
Recreation (inc. Tobacco)	116.9	136.8	17.0
Life Insurance	99.9	104.2	4.3

a) Added in fall of 1947.

Source: Table 9, Chapter 13, Vol. III, Statistical Supplement.

Foods continued their rapid rise to lead the list of items at double their pre-war prices by September, 1948. At this time the food index stood at 203.9. Meats and fish were nearly three times pre-war, at 279.5. It will be noted that cereals (mostly bread) had risen to 145.8 from the previously controlled retail level of 99.7. Actual food prices at the several dates of comparison are shown in Volume III.¹ Other items showing large increases included men's wear at 198.5, piece goods at 192.6, and furnishings and textiles at 204.1. These and similar groups of price increases are the subject of particular studies in Volume III of this report.

NATIONAL INCOME, GROSS NATIONAL PRODUCT AND OTHER NATIONAL ACCOUNTS

The following description and analysis of the national accounts is given in considerable detail for the reason that they are mentioned repeatedly throughout the report. The accounts include wages, consumer expenditures, profits, investment, exports and similar economic data. It will therefore be useful to have a preliminary idea of the size of each of these and of their relationships to one another.

The national accounts provide over-all measurements of production and summaries of the final transactions resulting from the movement of products from the raw material to the finished stage. The output of goods and services is valued in terms of money through the market mechanism and this gives us a convenient common basis on which the separate parts can be totalled and compared.

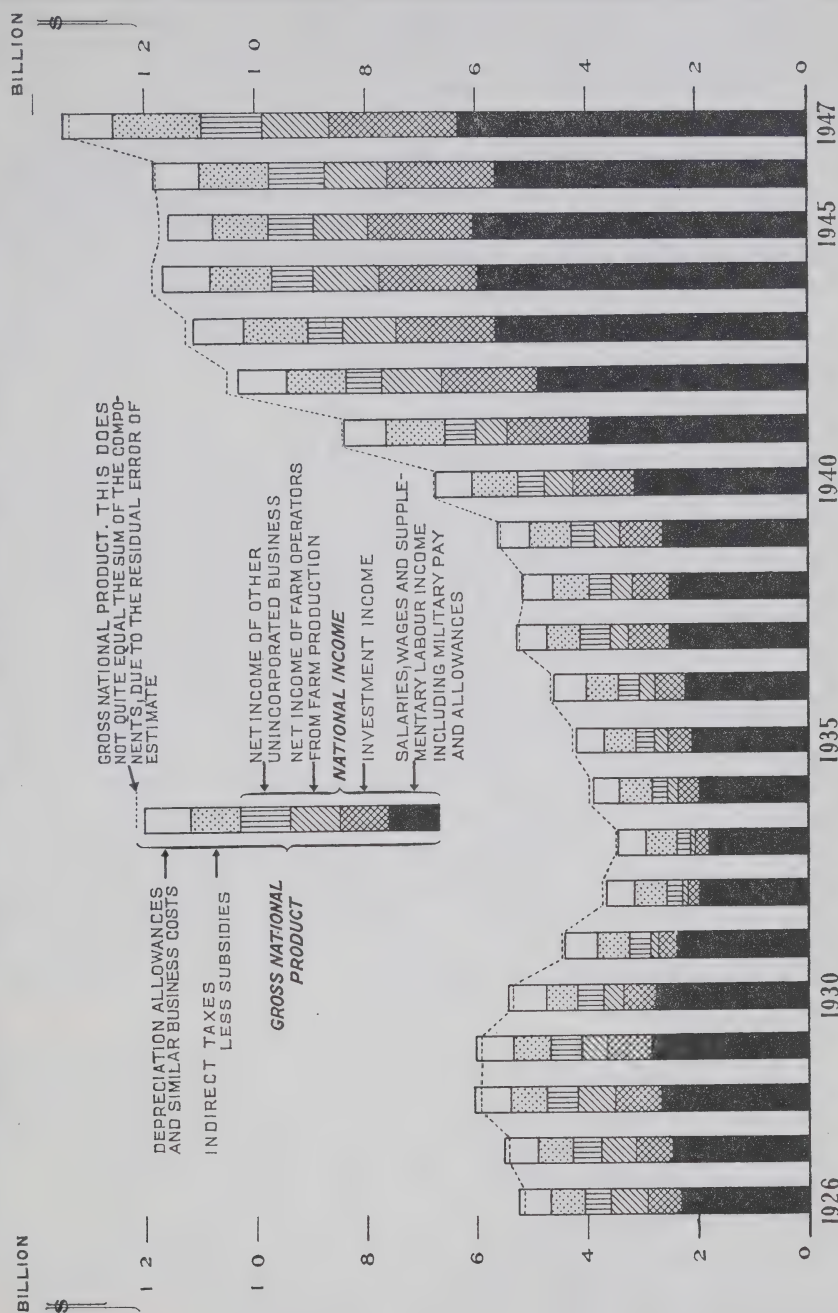
The value of the total output may increase from year to year, in three principal ways. First, it may increase because prices are rising, but without more goods or services being produced. When the resources of the economy are fully employed the volume of new goods and services produced can only increase slowly from one year to the next. A rapid rise in the value of output under these conditions is due mainly to prices. This accounts for the increase between 1947 and 1948. Second, a rise in the value of output may reflect the increased goods obtained from using more labour and capital. When there are many unemployed resources in the country, even though prices remain stable, a substantial increase in the value of output of goods and services can occur from one year to the next, by bringing into employment the unused resources. Third, a rise in the value of output may take place when the economy uses the same amount of labour and capital more efficiently. This is reflected in long run gains in productivity and technological progress.

The production of goods and services and their distribution involves a myriad of transactions, between manufacturers and wholesalers, between retailers and final consumers, between governments and private individuals, between resident Canadians and foreigners. These transactions are recorded in terms of purchases, sales, incomes, costs and expenditures. It is possible

¹Table 10, Chapter 13, Vol. III, Statistical Supplement.

CHART IV

CANADA'S INCOME AND PRODUCTION SINCE 1926



Source: Canadian Statistical Review, September 1948.

by proper grouping of transactions to reproduce accounts which measure the market value of the output of goods and services and, at the same time, summarize the main transactions which take place among sectors of the economy. Accounts of this kind are prepared by the Dominion Bureau of Statistics and have been specially arranged and summarized for the present report.¹

Our discussion is divided into two sections. The first section deals with income and expenditure for the economy as a whole and compares the years 1928, 1933, 1939, 1944 and 1947, for purposes of illustration. The second section deals with income and expenditure accounts for parts of the economy. The years 1939 and 1947 are used for illustration.

Consolidated Accounts for the Economy as a Whole

National Income and Gross National Product

The nation's output of goods and services may be analyzed in terms of costs. For the economy as a whole these costs may be divided into two classes, first, factor costs or the earnings before taxes of Canadian labour and capital in the process of production. These include salaries and wages, interest, rent, corporation profits and net income of unincorporated business. The total of these factor costs is called net national income at factor cost, or more briefly, national income. Second, there are certain costs of production which form part of the market value of goods and services, but are not earnings of capital and labour. These are depreciation allowances for building and machinery, and indirect taxes less subsidies. The grand total of national income, depreciation allowances, and indirect taxes less subsidies measures the market value of the nation's output and is called the Gross National Product. This aggregate measures output without duplication, in that purchases of raw materials and goods in process are not included as such. This is because the production of these raw materials and goods in process involves costs that are counted in the general compilation of all costs of production. Thus Gross National Product is a consolidated total.

The Gross National Product in 1947 was \$13,375 million, the highest figure on record. The figure for 1948 promises to be higher by approximately two billion dollars. These figures compare with \$5,985 million in 1928 the peak year of the inter-war period, \$5,598 million in 1939, the last pre-war year, and \$11,887 million in 1944, the peak wartime year.

Since the Gross National Product is expressed in terms of current values, a proper appreciation of these figures can be obtained only if they are analyzed in the light of price changes. The cost-of-living index is used as a general guide for this purpose.

¹Reference may be made to "National Accounts, Income and Expenditure, 1938-1947" (November, 1948), "National Accounts, Income and Expenditure, 1926-1947" (September, 1948) and "National Accounts, Income and Expenditure, 1938-1945" (April, 1946), for concepts, methods and sources as well as more complete detail.

TABLE 5
NET NATIONAL INCOME AT FACTOR COST AND GROSS
NATIONAL PRODUCT AT MARKET PRICES
(millions of dollars)

	1928	1933	1939	1944	Prelim. 1947
Salaries, Wages and Supplementary Labour Income	2,658	1,791	2,583	4,908	6,235
Military Pay and Allowances	7	8	32	1,068	83
Investment Income	839	233	783	1,774	2,309
Net Income of Agriculture and Other Unincorporated Business					
Farm Operators from Farm Production	693	98	461	1,213	1,235
Other Unincorporated Business	553	257	430	749	1,119
NATIONAL INCOME	4,750	2,387	4,289	9,712	10,981
Indirect Taxes less Subsidies	677	566	737	1,123	1,572
Depreciation Allowances and Similar Business Costs	647	500	582	863	928
Residual Error of Estimate	- 89	15	- 10	189	-106
GROSS NATIONAL PRODUCT AT MARKET PRICES	5,985	3,468	5,598	11,887	13,375

Source: Dominion Bureau of Statistics, Ottawa.

TABLE 6
GROSS NATIONAL PRODUCT PER CAPITA IN 1935-1939 DOLLARS

Year	1 Gross National Product (billions of dollars)	2 Cost-of-Living Index* 1935-1939=100	3 Gross National Production 1935-1939 dollars (billions of dollars) Col. 1 ÷ Col. 2	4 Population (millions)	5 Per Capita Gross National Product in 1935-1939 dollars (nearest hundred dollars) Col. 3 ÷ Col. 4
1928	6.0	120.	5 ^b	9.8	5
1933	3.5	94.	4 ^b	10.6	3
1939	5.6	101.	6 ^b	11.3	5
1947	13.4	135.	10 ^b	12.6	8
1948	15.4 ^c	155.	10 ^b	12.9	8

a) The cost-of-living index is used to deflate Gross National Expenditure because the largest single component of the latter is consumer expenditure. This is valued at retail and it contains services such as rent, transportation and recreation. Tests showed that the cost-of-living index was within two or three per cent of a specially constructed deflator for consumer expenditure. This special price index is not kept up to date or issued officially as further experimental work is needed. The remaining groups of national expenditure consist of government and investment expenditure, including net foreign investment. Price indexes for these groups have not been developed as yet, and in the meantime we are advised that the best approximation can be obtained by using the cost-of-living index for the entire expenditure. See p. 15, National Income Statistics 1938-1947. Statistical Office of the United Nations, Lake Success, N.Y. 1948.

b) Rounded to nearest billion.

c) Preliminary estimate.

Source: Calculations made from data supplied by Dominion Bureau of Statistics, Ottawa.

The seriousness of the depression of the 1930's and the sluggishness of the subsequent recovery is reflected by the fact that on a per capita basis the Gross National Product in 1939, corrected for price changes, was no higher than in 1928, eleven years earlier. In terms of the approximate figures the above table in per capita output in 1935-1939 dollars dropped from the neighbourhood of \$500 in 1928, to \$300 in 1933, then recovered to the same approximate level of \$500 in 1939. The improvement since 1939 is impressive, even in terms of the rough figures with which we have to operate. These show an increase from the neighbourhood of \$500 per capita to \$800 per capita, in 1935-1939 dollars. The rise in Gross National Product from 13.4 billion in 1947 to 15.4 billion in 1948, on the other hand, is due largely to the price increase from 135 to 155. The current figures are not refined sufficiently to show the extent to which an improvement in real output per capita has taken place in 1948. The data attest to the improvement in real output over pre-war.

Analysis of the components of national income reveals interesting characteristics in their movement over the major cycle of prosperity and depression of the past twenty years. Thus salaries and wages, including military pay and allowances, fluctuate less than investment income, reflecting the volatility of profits as compared with salaries and wages. (See Table 5). From 1928 to 1933, salaries and wages dropped from \$2,655 million to \$1,799 million or 33 per cent, while investment income dropped from \$839 million to \$233 million. From 1933 to 1939, on the other hand, salaries and wages rose to \$2,615 million, a rise of 45 per cent while investment income rose to \$783 million, a rise of 236 per cent. Comparing 1939 with 1947, salaries and wages were 142 per cent above the 1939 level while investment income was 195 per cent higher than in 1939.

Between 1928 and 1933 net income of farm operators fell from \$693 million to \$98 million, a reflection of drought in western Canada coupled with drastic decline in the price of agricultural products. After 1933, the trend was slowly upward; by 1939 net income of farm operators from current farm production was \$461 million, still 33 per cent below the 1928 level. Favourable crop conditions during the war and post-war period together with a heavy demand for agricultural products brought about a very large increase in net income of farm operators and in 1944 the figure amounted to \$1,213 million. In 1947 the figure was \$1,235 million. It must be emphasized that these figures apply to income of farm operators from current farm production only and exclude income received from supplementary occupations.

Net income of other unincorporated business declined from \$553 million in 1928, to \$257 million in 1933, or by 54 per cent. It moved up to \$430 million in 1939, and in 1947 it reached a high of \$1,119 million.

Gross National Expenditure

What is produced must either be sold or added to inventories. Thus the annual output of Canadian labour and capital can be measured another way, by adding together all final sales adjusted for changes in inventories.

Four main classes of sales can be readily distinguished, sales to consumers, sales to governments, sales to business on capital account (capital formation in Canada) and sales to non-residents (exports). Only final sales are included; sales between businesses of raw materials and other intermediate goods are not included as such because they are accounted for in the market values of the end products sold. For example, the market price of an automobile sold to a consumer by firm A includes the value of tires bought from firm B. The value of these tires is only counted once, in the market price of the automobile. However, a tire purchased by a person to replace an old one is counted as an end-product. Since total sales include the value of imported goods and services and since the purpose is to measure the production of Canadian labour and capital, imports of goods and services are deducted from the grand total of sales. The aggregate obtained in this manner is called Gross National Expenditure and its components indicate the manner in which the nation's output is absorbed.¹

TABLE 7
GROSS NATIONAL EXPENDITURE AT MARKET PRICES
(millions of dollars)

	1928	1933	1939	1944	Prelim. 1947
Personal Expenditure on Consumer Goods and Services	4,196	2,848	3,861	6,300	8,888
Government Expenditure on Goods and Services	589	521	724	5,075	1,481
Gross Home Investment Plant, Equipment and Housing	940	221	554	756	2,042
Inventories	206	- 105	327	- 82	842
Exports of Goods and Services	1,773	826	1,451	3,566	3,616
Imports of Goods and Services	-1,808	- 828	-1,328	-3,539	-3,599
Residual Error of Estimate	89	- 15	9	- 189	105
GROSS NATIONAL EXPENDITURE AT MARKET PRICES	5,985	3,468	5,598	11,887	13,375

Source: Dominion Bureau of Statistics, Ottawa.

Personal expenditure on consumer goods and services, the largest component of Gross National Expenditure, moves much more slowly through the course of the business cycle than either investment or external trade, thereby exercising a stabilizing influence on the movement of total output. From 1928 to 1933, consumer expenditure declined from \$4,196 million to \$2,848 million or by 32 per cent. During the same period gross investment in plant, equipment and housing dropped from \$940 million

¹Since they measure the same thing, Gross National Product and Gross National Expenditure should add up to the same total. The incompleteness or inconsistency of available statistical sources, however, is reflected in a difference between the two aggregates. This difference is divided equally as shown in the tables as the "residual error of estimate".

to \$221 million, 76 per cent, exports from \$1,773 million to \$826 million, 53 per cent, imports from \$1,808 million to \$828 million, 54 per cent. The recovery from 1933 to 1939, on the other hand, witnessed an increase of consumer expenditure of 36 per cent while gross investment in durable assets climbed 151 per cent, exports 76 per cent and imports 60 per cent. The same general picture is revealed in a comparison between 1939 and 1947; consumer expenditure rose from \$3,861 million to \$8,888 million or 130 per cent; investment in plant, equipment and housing from \$554 million to \$2,042 million or 269 per cent; exports from \$1,451 million to \$3,616 million or 149 per cent; and imports from \$1,328 million to \$3,599 million or 171 per cent.

Per capita real consumption in 1939, appears still to have been below that in 1928, as is indicated by the fact that expenditure per capita on consumption in 1939, was 20 per cent below that in 1928, while the cost-of-living index was 16 per cent below. From 1939 to 1947, expenditure per capita on consumption rose 106 per cent while the cost-of-living index went up 33 per cent.

It should be noted that the investment figures included in the accounts are "gross", that is, they are not adjusted for depreciation, or wear and tear and obsolescence of capital equipment. Available depreciation figures derived from business accounts are not necessarily related to actual consumption of capital assets. Nevertheless, when the depreciation figures are deducted from total investment in plant, equipment and housing the conclusion appears warranted that little or no new net investment took place between 1930 and 1940, and that possibly there was some net disinvestment;¹ that is, more plant, equipment and housing may have been "used up" than was produced.

Government expenditure on goods and services accounted for about 10 per cent of total output in 1928. During the 1930's government expenditure became somewhat more important as a proportion of total output. In 1939, it accounted for 13 per cent of national expenditure. Under the impetus of military requirements the country's output expanded tremendously and in 1944, 43 per cent of total output was absorbed by government. In 1947, government expenditure accounted for only 11 per cent of national expenditure.

Accounts for Sectors of the Economy

Information for the economy as a whole may be expressed in terms of the Gross National Product and Expenditure. They portray the results of the manifold transactions that take place in the economy in a year. It is possible to get behind these aggregates and to summarize the underlying transactions into a number of homogeneous and related groups. Thus we can divide the economy into four sectors with a separate revenue and

¹See National Accounts, Income and Expenditures, 1926-1947, Dominion Bureau of Statistics, Ottawa, 1948. Investment in plant, equipment and housing in 1933, was \$221 million, as compared with depreciation estimates of \$500 million.

TABLE 8
BUSINESS OPERATING ACCOUNT
(millions of dollars)

REVENUE	1939	Prelim. 1947	EXPENDITURE	1939	Prelim. 1947
1. Sales to Residents			5. Factor Costs		
(a) Persons (17a)	3,630	8,516	(a) Salaries, Wages and Supplementary Labour Income (10a)	2,132	5,362
(b) Governments (27a)	263	585	(b) Net-Income of Agri- culture. Other Unincor- porated Business (12)	891	2,354
(c) Business on Capital Account			(c) Corporation Profits* (excluding interest and dividends from abroad) (39)	587	1,789
(i) Housing (53a)	145	466	(d) Other Investment Income (excluding interest on the public debt) (40)	343	697
(ii) Plant and Equip- ment (53b)	409	1,576	6. Other Costs		
(iii) Inventories (53c)	327	842	(a) Indirect Taxes (22)	720	1,746
2. Sales to Non-Residents			(b) Less Subsidies (29)	17	-174
(a) United States (36bi)	752	1,632	(c) Depreciation Allowances and Similar Business Costs (50)	582	928
(b) United Kingdom and Other Empire (36bii)	496	1,322	7. Purchases from Non- Residents		
(c) Other Countries (36biii)	146	600	(a) United States (31bi)	600	2,362
			(b) United Kingdom and Other Empire (31bii)	230	425
			(c) Other Countries (31biii)	85	261
3. Residual Error of Estimate	9	105	8. Residual Error of Estimate	- 10	-106
4. Total	6,177	15,644	9. Total	6,177	15,644

a) For total corporation profits see table 12.

Source: Dominion Bureau of Statistics, Ottawa.

expenditure account for each, the business sector, the personal sector, the government sector and the non-residents' sector. Such accounts are presented in Tables 8 to 11. In addition to the separate sector accounts, two accounts are also presented here dealing with all sectors combined, namely, investment income appropriation account (Table 12) and source and disposition of private saving account (Table 13). Tables 8 to 13 are made up on the basis of the double entry system of bookkeeping. Each item is

entered twice and the code number in brackets following each item indicates the account number where the offsetting entry may be located. Wages appear as a cost expenditure in the business account, (item 5a) and as income in the personal account, (item 10a). Consumption, which depends partly on wages, appears as revenue in the business account, (item 1a) and as expenditure in the personal account, (item 17a). Thus the effect of changes in any one component upon other parts of the economy can be located and related.

Business Operating Account

Table 8 portrays the main sources of business operating revenue on the one hand, the main items of business operating expenditure on the other. All private and public economic units selling goods and services on a profit basis are included in the category of business: incorporated and unincorporated private business firms, farmers, landlords, self-employed professionals, and government business enterprises such as the Canadian National Railways. For this particular purpose home owners are regarded as landlords who rent to themselves and are, therefore, also included as business enterprises. Sales by one business to another are eliminated except for sales on capital account.

The main points brought out by this table are as follows: business receipts from the sales of consumer goods to persons were much larger in dollar terms in 1947 than in 1939, but the proportion of these sales to all sales was less in 1947 than in 1939. The proportion was \$8,516 million to \$15,644 million in 1947, or 54 per cent, as compared with \$3,630 million to \$6,177 million in 1939, which was 59 per cent. This drop in the proportion of sales to persons was offset by an increase in sales of capital equipment or other revenue from sales to business on capital account. Sales to government and to non-residents, the two other main sources of business revenue, maintained their relative positions in the two years. Sales to government accounted for approximately four per cent of total business revenue both in 1939 and 1947, and sales to non-residents accounted for approximately 23 per cent of business revenue in the same years.

Salaries and wages were \$5,362 million in 1947, and \$2,132 million in 1939, or 34 per cent of total business expenditure in both years. Corporation profits, on the other hand, rose in relative importance from \$587 million in 1939 to \$1,789 million in 1947, 9.5 per cent and 11.5 per cent respectively.

Personal Income and Expenditure Account

Table 9 shows the main sources of personal income and how it is spent or otherwise disposed. Private non-commercial institutions, such as charities and hospitals are also included. Personal income measures all income received by Canadian residents; it includes unearned income such as family allowances and unemployment insurance benefits, and excludes current earnings not paid out to persons, such as undistributed profits and government trading profits.

TABLE 9
PERSONAL INCOME AND EXPENDITURE ACCOUNT
(millions of dollars)

INCOME	1939	Prelim. 1947	EXPENDITURE	1939	Prelim. 1947
10. Salaries and Wages			16. Personal Direct Taxes		
(a) From Business (5a)	2,132	5,362	(a) Income Taxes (20a)	61	694
(b) From Government (27bi)	327	717	(b) Succession Duties (20b)	28	61
(c) From Persons (17b)	124	156	(c) Miscellaneous (20c)	21	31
(d) Less Contributions to Social Insurance and Government Pension Funds (24)	- 34	-166	17. Purchase of Goods and Services		
11. Military Pay and Allow- ances (27ii)	32	83	(a) From Business (1a)	3,630	8,516
12. Net Income of Agriculture Other Unincorporated Business (5b)	891	2,354	(b) Direct Services (10c)	124	156
13. Interest, Dividends and Net Rental Income of Persons (44a)	564	939	(c) Tourist, Travel and Other Expenditure Abroad (All countries) (32)	107	216
14. Transfer Payments			18. Personal Saving (47)	320	605
(a) From Governments (ex- cluding interest) (28b)	249	824			
(b) Charitable Contributions from Corporations (44b)	6	10			
15. Total	4,291	10,279	19. Total	4,291	10,279

Source: Dominion Bureau of Statistics, Ottawa.

Turning to personal expenditure we find that a substantially larger proportion of personal income was paid in taxes in 1947 than in 1939. In 1939 personal direct taxes amounted to \$110 million or three per cent of personal income while in 1947, they were \$786 million, or eight per cent of personal income. Personal expenditure on consumer goods and services accounted for 90 per cent of personal income in 1939, while in 1947, it was 87 per cent of the total.

Government Revenue and Expenditure Account

Transactions of federal, provincial and municipal governments relating to Gross National Product and Expenditure are summarized in Table 10. For this table conventional government accounting statements of fiscal year revenue and expenditure have been adjusted to exclude purely book-keeping transactions and purchases and sale of existing capital assets. Corporation income and excess profits taxes have been adjusted to an accrual basis to correspond with business practice and to maintain con-

sistency with the rest of the accounts. Other figures of revenue are, in the main, on a cash basis. Federal government figures have been adjusted from a fiscal to a calendar year basis. Because of these adjustments the surplus and deficit in Table 10 do not agree with the customary government surplus and deficit.

TABLE 10
GOVERNMENT REVENUE AND EXPENDITURE ACCOUNT
(millions of dollars)

REVENUE	1939	Prelim. 1947	EXPENDITURE	1939	Prelim. 1947
20. Direct Taxes—Persons			27. Purchase of Goods and Services		
(a) Income Taxes (16a)	61	694	(a) From Business (1b)	263	585
(b) Succession Duties (16b)	28	61	(b) Direct Services		
(c) Miscellaneous (16c)	21	31	(i) Salaries and wages (10b)	327	717
21. Direct Taxes—Corporations			(ii) Military Pay and Allowances (11)	32	83
(a) Income and Excess Profits Taxes (44c)	112	805	(iii) Interest (41a)	102	96
(b) Withholding Taxes (44d)	11	35	28. Transfer Payments		
22. Indirect Taxes (6a)	720	1,746	(a) Interest (41b)	172	466
23. Investment Income			(b) Other (14a)	249	824
(a) Interest (44f)	77	133	29. Subsidies (6b)	— 17	174
(b) Trading Profits (44e)	22	206			
24. Employer and Employee Contributions to Social Insurance and Government Pension Funds (10d)	34	166			
25. Deficit (+) or Surplus (—) (on transactions relating to the national accounts) (55)	42	—932			
26. Total	1,128	2,945	30. Total	1,128	2,945

Source: Dominion Bureau of Statistics, Ottawa.

The table shows that direct taxes have become almost as important a source of government revenue as indirect taxes. In 1939, \$233 million or 21 per cent of government revenue was drawn from direct taxes on persons and corporations; in 1947, \$1,626 million or 42 per cent was obtained from these sources.

The very large government surplus of \$932 million in 1947, is in decided contrast to the deficit of \$42 million in 1939.

Examination of the structure of government expenditure indicates that while interest on government debt increased from \$274 million in

1939 to \$562 million in 1947, this element of government expenditure was relatively more important in 1939 than in 1947, as it was 24 per cent in 1939 and 19 per cent in 1947.

Non-residents' Revenue and Expenditure Account

Table 11 summarizes the transactions between the rest of the world and Canadian residents. The figures are those published by the Balance of Payments' Section of the Dominion Bureau of Statistics, with some modifications and rearrangement.

TABLE 11
NON-RESIDENTS' REVENUE AND EXPENDITURE ACCOUNT
(millions of dollars)

RECEIPTS FROM CANADA (Canadian Imports)	1939	Prelim. 1947	PAYMENTS TO CANADA (Canadian Exports)	1939	Prelim. 1947
31. Receipts from Business			36. Payments to Business		
(a) Interest and Dividends (all countries)	236	280	(a) Interest and Dividends (all countries) (42a)	31	32
(b) Other (mainly for merchandise)			(b) Other (mainly for merchandise)		
(i) United States (7a)	600	2,362	(i) United States (2a)	752	1,632
(ii) United Kingdom Other Empire (7b)	230	425	(ii) United Kingdom and Other Empire (2b)	496	1,322
(iii) Other Countries (7c)	85	261	(iii) Other Countries (2c)	146	600
32. Receipts from Persons			37. Payments to Persons		
Tourist, Travel and Other Personal Expenditure Abroad, (all countries) (17c)	107	216	Interest and Dividends (all countries) (42b)	26	30
33. Receipts from Government					
Interest (all countries) (45b)	70	55			
34. Net Debit (+) or Credit (-) on Current Account ^a					
(a) United States (54a)	-115	-1,129			
(b) United Kingdom and Other Empire (54b)	176	832			
(c) Other Countries (54c)	62	314			
35. TOTAL	1,451	3,616	38. TOTAL	1,451	3,616

a) These figures differ somewhat from the official balance of payments figures because of adjustments for consistency with other national accounts.

Source: Dominion Bureau of Statistics, Ottawa.

Since this is the account of non-residents, our imports appear as revenue to them. In 1947, a total of \$335 million was paid to non-residents in interest and dividends which was nine per cent of Canadian debits on

international account. Imports of goods and such services as freight or shipping increased very substantially both in absolute and relative terms from \$915 million in 1939 (total of items in 31b) or 69 per cent of the total to \$3,048 million or 85 per cent of the total in 1947.

Investment Income Appropriation Account

Table 12 summarizes the sources and disposition of investment for all sectors combined. It serves the important function of assembling all elements of investment income and in addition it facilitates carrying out the double-entry system embodied in the accounts.

TABLE 12
INVESTMENT INCOME APPROPRIATION ACCOUNT
(millions of dollars)

SOURCES	1939	Prelim. 1947	DISPOSITION	1939	Prelim. 1947
39. Corporation Profits (excluding interest and dividends from abroad) (5c)	587	789	44. To Canadian Residents		
40. Other Interest Income (excluding interest on the public debt) (5d)	343	697	(a) Interest Dividends and Net Rental Income of Persons (13)	564	939
41. Interest on the Public Debt			(b) Charitable Contributions from Corporations (14b)	6	10
(a) Portion Included in National Income (27biii)	102	96	(c) Corporation Income and Excess Profits Taxes (21a)	112	805
(b) Transfer Portion (28a)	172	466	(d) Withholding Taxes (21b)	11	35
42. Interest and Dividends from Non-Residents Received by			(e) Government Trading Profits (23b)	22	206
(a) Corporations (36a) ^a	31	32	(f) Government Interest Revenue (23a)	77	133
(b) Persons (37)	26	30	(g) Undistributed Corporation Profits (48a)	219	608
			(h) Undistributed Wheat Board Trading Profits (48b)	—	57
			(i) Inventory Revaluation Adjustment (49)	— 56	— 18
			45. To Non-residents, Interest and Dividends received from		
			(a) Business (31a)	236	280
			(b) Government (33)	70	55
43. TOTAL	1,261	3,110	46. TOTAL	1,261	3,110

a) For total corporation profits, add items 39 and 42a.
Source: Dominion Bureau of Statistics, Ottawa.

The significant points of the above table are that corporation profits gained in relative importance from 47 per cent in 1939, to 58 per cent in 1947, and all other components of investment income declined correspondingly. Changes also occurred in the disposition of investment income. In 1947, 30 per cent was paid out to resident persons, 11 per cent was paid out to non-residents and 20 per cent was retained by corporations.

Source and Disposition of Private Saving Account

The nation's gross saving is the amount of the Gross National Product not spent on current consumption. Gross investment is the portion of current output used to increase and maintain the country's stock of capital goods at home and abroad. The saving can take the form of personal saving, undistributed corporation profits, depreciation allowances, and government surplus. A government deficit, on the other hand, represents an offset to saving in the private (business and personal) sectors of the economy. The total of private saving is equal to total investment at home and abroad plus the government deficit or less the government surplus.

TABLE 13
SOURCE AND DISPOSITION OF PRIVATE SAVING ACCOUNT
(millions of dollars)

SOURCE	1939	Prelim. 1947	DISPOSITION	1939	Prelim. 1947
47. Personal Saving (18)	320	605	53. Gross Home Investment		
48. Business Saving			(a) Housing (1ci)	145	466
(a) Undistributed Corpora- tion Profits (44g)	219	608	(b) Plant and Equipment (1cii)	409	1,576
(b) Undistributed Wheat Board Trading Profits (44h)	—	57	(c) Inventories (1ciii)	327	842
49. Inventory Revaluation Adjustment (44i)	— 56	— 18	54. Net Foreign Investments ^a		
50. Depreciation Allowances and Similar Business Costs (6c)	582	928	(a) United States (34a)	— 115	— 1,129
51. Residual Error of Estimate	— 10	— 106	(b) United Kingdom and Other Empire (34b)	176	832
			(c) Other Countries (34c)	62	314
			55. Government Deficit (+) or Surplus (—) (25)	42	— 932
			56. Residual Error of Estimate	9	105
52. TOTAL	1,055	2,074	57. TOTAL	1,055	2,074

a) See footnote to Table 11.

Source: Dominion Bureau of Statistics, Ottawa.

In 1939, personal saving amounted to \$320 million, undistributed profits to \$219 million and depreciation allowances to \$582 million. This saving was absorbed for the most part by investment abroad and the

government deficit of \$42 million. In 1947, the situation was considerably different. Personal saving was \$605 million, while undistributed profits amounted to \$608 million and depreciation allowances to \$928 million. In the same year gross home investment in plant, equipment, housing and inventories reached a record high of \$2,884 million, an amount greatly in excess of total private saving. However, large saving also took place in the government sector as indicated by the record government surplus of the year 1947.

SUMMARY AND CONCLUSIONS

The preceding analysis reveals that, by contrast with the decade 1928-1938, which was characterized by general stagnation, the period since 1939 has witnessed a dynamic growth of the Canadian economy. Under the impetus of wartime demands and post-war accumulated needs the Gross National Product in value terms increased by 139 per cent from 1939 to 1947. Part of this increase was due to price increases, but even after allowing for the increase of 33 per cent in the cost-of-living index in this period, there remains a tremendous expansion in real output of goods and services.

An approximate measure of the increased quantity may be obtained by dividing the index of value (239) by the index of price (133). The result is 180, which means that the quantity of output was 80 per cent above 1939.

Rising production was accompanied by correspondingly high earnings. All types of earnings participated in the advance, labour income increasing from \$2,583 million to \$6,235 million and investment income from \$783 million to \$2,309 million. Net income of farm operators increased from \$461 million to \$1,235 million and other unincorporated businesses from \$430 million to \$1,119 million.

A relatively larger proportion of the nation's resources was used for investment in plant, equipment, housing and inventories in 1947 than in 1939. Exports of goods and services reached a very high level, while buoyant incomes at home and the requirements of Canadian industry resulted in correspondingly high imports. The requirements of governments on the national output were relatively lower in 1947 than in 1939.

Personal income, the largest component of which was salaries and wages, increased from \$4,291 million in 1939, to \$10,279 million in 1947. A substantial rise in the standard of living took place during the same period. This is indicated strikingly by the fact that consumer expenditure on goods and services, per capita, was more than double the 1939 level. The index for consumer expenditure per capita, was 206. It can be divided by the cost-of-living index which averaged 133 in 1947, to give an approximate estimate of 155 for the index of consumer expenditure in real terms. In non-statistical terms, this means that the actual quantities of goods and services purchased by consumers in 1947, were 55 per cent larger than in 1939.

3

PRICE CONTROL AND RATIONING

PART I: SELECTIVE CONTROLS; 1939-1941

IN many respects the most important and controversial phase of our inquiry related to the direct control of prices. We therefore found it necessary to make a detailed examination of the history of the Wartime Prices and Trade Board and to inquire as well into certain related aspects of government activity affecting prices and supplies.

For this purpose we found the annual reports of the Prices Board¹ to be the most comprehensive source of information on the subject and many of the facts which appear in this chapter are taken therefrom. We also had the advantage of testimony from the present Chairman of the Board, Mr. K. W. Taylor, and from others who are, or were, at one time or other connected with it in an administrative capacity. In addition, certain supplementary information was obtained directly from the Board covering particularly the past few months, for which published material is scanty.

Apart from the factual account, which takes up the main part of this chapter, we attempt at the end to appraise the history of price control, to point to its accomplishments as well as to its limitations.

ESTABLISHMENT OF THE PRICES BOARD

The Wartime Prices and Trade Board was established on September 3, 1939, by Order-in-Council under the War Measures Act. As we have seen, it began its operations against an economic background of underemployment and some internal disequilibrium.

The duties of the Board were "to provide safeguards under war conditions against undue enhancement in the prices of food, fuel, and other necessities of life, and to ensure an adequate supply and equitable distribution of such commodities". The Order-in-Council made it an offense for any person (1) to sell any necessary of life at a price higher than is "reasonable and just", and provided that any maximum price fixed by the Board "shall be conclusively deemed to be reasonable and just"; (2) to withhold from sale any necessary of life beyond an amount reasonably required for the use or consumption of his household or for the ordinary purpose of his business; (3) unduly to prevent, limit, or license the manufacture, production, transportation, sale, supply or distribution of any necessary of life. Penalties were fixed at a fine not exceeding \$5,000 or imprisonment for not more than two years, or both.

The powers of the Board were extended under another Order-in-Council issued on December 5, 1939, after which they included the authority

¹The first Report covered the period from September 3, 1939, to March 31, 1943; the second from April 1, 1943, to December 31, 1943, and the remaining three the calendar years 1944, 1945 and 1946.

to investigate costs, prices and profits; to license persons who dealt in any way in necessities of life; to fix maximum prices and mark-ups; to regulate the sale and distribution of necessities of life; to take possession of stocks being withheld; to buy and sell goods; and to recommend embargoes on exports. The powers to enforce licensing, to fix maximum prices or mark-ups, to prohibit exports, to buy and sell, and to take possession of necessities of life, were exercisable only with the consent and approval of the Governor General in Council. In September, 1940, the powers of the Board were further extended to control rentals and housing accommodation. Other extensions of power in the late summer of 1941 were preparatory to the introduction of the over-all price ceiling and will be discussed in the next section of this chapter.

ORGANIZATION OF SUPPLY

The immediate problem facing the Board upon its inception was to organize the supply of certain commodities where interruptions were caused or threatened by wartime conditions. For example, most of Canada's pre-war wool supply came from Australia and New Zealand, and at the outbreak of the war the British government purchased the entire output of those countries for the duration of the war and one clip thereafter. Similarly, more than three-quarters of Canada's pre-war sugar supply came from Empire sources, chiefly Australia, the British West Indies, Fiji, Mauritius and South Africa, and again the British government purchased the entire exportable surplus. It was consequently decided that the Board should arrange for continued supplies of wool through the British Wool Control and for the Board to purchase Canadian requirements of sugar through the British Sugar Control.

The Board encouraged the Canadian production of some goods formerly imported. For example, the occupation of Norway and the dislocation of the British fishing industry made it difficult for Canada to get her normal supply of cod liver oil, and following a survey conducted by the Board, a rapid expansion of processing facilities in the Maritime provinces and eastern Quebec resulted in the 1939 output of 56,000 gallons of cod liver oil of medicinal and feeding grades being increased to more than 200,000 gallons in 1941. As another illustration, the Board was able to facilitate the establishment of a privately financed wool combing plant at Acton, Ontario, from which it was possible to produce a substantial quantity of tops to supplement normal imports from the United Kingdom.¹

To assist in the organization of supply, it was decided at various times to institute export control on wool, hides and leather, fish livers and oils, animal fats and mill feeds. Domestic licensing was introduced in the case of coal and hides and leather. All coal dealers and all dealers in and manufacturers of hides and leather were required to obtain a license from the Board; this licensing system gave the Board a ready method of getting essential information from and to each member of the industry and it

¹Cf. Chapter 6, Vol. III, Primary Textiles.

also provided a means of disciplining those who were recalcitrant in obeying orders of the Board. Anti-waste campaigns, as in the case of butter, and steps to detect and prevent hoarding were other methods of increasing supply.

PRICE AND RENT FIXING

During this pre-ceiling period price fixing was carried out in the case of just four commodities, wool, butter, bread and flour, and on rents; and for each of the commodities it was only a temporary measure.

Apart from these specific price fixing orders the Board claims to have

“exercised a strong influence against price increases through its power to investigate and prosecute any cases of alleged profiteering and the known fact that it stood prepared to follow up all complaints regarding unreasonable price enhancement”.

Also, the Board stated that in a number of cases, for example, mill feeds, price increases were prevented or limited by discussion with the industry without the necessity of formal control.

Rent control during this early period was of more significance in the broad field of wartime price controls than were the price fixing orders because it set the pattern for the nation-wide rental ceiling adopted 14 months later. The large movements of population into certain areas which became centres for the armed forces or for war industries caused acute housing shortages in these areas and rents started to rise sharply. It was decided, therefore, to place a ceiling on rents in such localities. By the first rentals order, effective on October 1, 1940, rentals in fifteen localities were fixed at their levels as at January 2, 1940. Provision, however, was made for local committees to hear appeals in cases where special circumstances rendered the January, 1940, rent inappropriate as a ceiling. By subsequent orders, rent control was later extended to other congested areas. From the outset rental ceilings were based on actual rents during some “basic period” rather than on the principle of a “fair return”.

PART II: OVER-ALL PRICE CEILING; 1941-1945

TRANSITION PERIOD

Growing Pressures

During the second and third quarters of 1941 the pressures on the Canadian economy increased greatly. The demand for war goods from Canada, both raw materials and manufactured articles, had been relatively low during 1939 and early 1940, but after the invasion and collapse of the Low Countries and France in May and June 1940, there was a sudden change.

The Gross National Product, which had been \$5,598 million in 1939, was \$6,772 million in 1940 and in 1941 was \$8,434 million, or \$496.8, \$595.0 and \$732.9 on a per capita basis. This compared with \$608.5 per capita in 1928, and the cost-of-living index in 1941 still averaged only 92.7 per cent of the 1928 level so the increase in real output was probably even

greater than these figures indicate. As a result of this rapid expansion, the labour market by the summer of 1941 was becoming much tighter. It is true that estimates indicate that unemployment on June 1, 1941 was eight per cent of the civilian labour force, but this was a vast decrease from two years earlier. Considerable "bidding up" of wages by employers was becoming apparent. Furthermore, the supply of raw materials, parts and finished goods from the United States which previously had seemed almost unlimited, was being affected by the rapid development of the armament program within that country.

Another consequence of this greatly increased economic activity was the rapidly rising spending power of the Canadian consumer. Total personal incomes in Canada were estimated at \$4,291 million in 1939, \$4,926 million in 1940 and \$5,873 million in 1941. Personal payments of direct taxes and personal savings also rose but by lesser amounts; the total of the two was \$430 million in 1939 and \$859 million in 1941, with the result that personal expenditures on consumer goods and services rose from \$3,861 million in 1939 to \$5,014 million in 1941.

Until this time it had been possible to satisfy the increased demand for consumer goods as well as the growing war needs, because the country's total production was expanding so rapidly. The time was clearly approaching, however, when this would no longer be possible because the resources formerly unemployed had now almost completely been put into use and the demands of war continued relentlessly to expand.

These various pressures were having their effect on prices. The wholesale price index (1926=100) was 78.4 in September, 1939; it rose to 81.7 by December, 1939, and by March, 1941, fifteen months later, had reached 86.0. In the six months between March, 1941 and October, 1941, however, it rose by as much as it had in the previous 24 months to 93.9. The movement of the cost-of-living index was very similar. On the base 1935-1939=100, it was at 100.8 in August, 1939, 103.8 in December, 1939, 108.2 in March, 1941 and 115.5 in October, 1941.

Choice of Methods of Control

By the fall of 1941 it was evident that a new phase of the inflationary spiral was on the point of developing. That greatly intensified measures were essential to combat it was clear, and much attention was given during the summer and early fall of 1941 to what form these measures should take.

For reasons which are outlined in Chapter 6, it was decided that fiscal and monetary actions, though an essential part of the full program, could not be depended upon to curb the powerful inflationary forces then being put in motion. More direct action was necessary. Which should it be, an intensification of the use of selective controls, firmly fixing prices and regulating uses but confining these actions to key and basic commodities; or placing a price ceiling on all goods and services, with accompanying production and distribution controls? The choice fell on the over-all

ceiling policy, for reasons which were outlined by the Minister of Finance in the house of Commons on November 6, 1941, and have been further discussed by Mr. K. W. Taylor.¹ Briefly, the advantages of the over-all ceiling were stated to be as follows:

- (a) It is non-discriminatory; it puts everyone under the same restrictions. Selective controls, on the other hand, prevent only those who are making "socially necessary" goods from raising their prices, and lets all others, whose activities may be contributing little or nothing to the war effort, charge what the traffic will bear.
- (b) It is administratively and politically much easier than selective controls which in a quickly developing inflationary spiral require the constant and detailed checking of price and supply conditions. This takes much skill and valuable time, and danger spots may well reach alarming proportions almost before they are discovered. Also there will be endless pressure on the control authorities in respect to all important commodities, the direction of the pressure depending upon whether the party concerned is a producer or a user of the article in question.
- (c) It has the advantage of fixing all prices in a relationship to each other which is determined by the forces of supply and demand operating in the open market prior to the introduction of the ceiling and is not empirically chosen as would be the case with selective controls. Eventually, of course, changing circumstances may make certain of the "ceiling" relationships no longer applicable, but to deal with such adjustments is simpler than the infinitely complicated problems involved in determining "fair" prices for controlled articles when other items entering into their production costs are uncontrolled and are continually rising in price.
- (d) It tends to stabilize production, whereas selective controls would encourage materials and manpower to be transferred into the manufacture and distribution of uncontrolled, and therefore, by definition less necessary, goods.
- (e) Because of the fact that the uncontrolled items would be continually exerting upward pressure on the prices of controlled items by entering into their costs, selective controls could only retard the upward movement.

The Announcement of the Ceiling

Meanwhile, steps were taken to increase and clarify the authority of the Prices Board. On August 14, 1941, the control and supervision of the Wartime Prices and Trade Board was transferred from the Minister of Labour to the Minister of Finance, thus unifying both fiscal and direct anti-inflationary policy under the one Minister. At the same time the Board was given authority to control consumer credit.

¹Canadian Journal of Economics and Political Science, February, 1947.

On August 28, the authority of the Wartime Prices and Trade Board was extended from "necessaries of life" to "goods and services" except for the supply and allocation of materials essential to the war effort which were placed under the jurisdiction of the Wartime Industries Control Board in the Department of Munitions and Supply. It was also provided that no order or regulation of any Dominion or Provincial authority establishing specific or maximum or minimum prices or mark-ups should be valid unless concurred in by the Wartime Prices and Trade Board. Thus the Board became the final administrative authority in the whole field of price control.

On October 14, the Board brought under control consumer credit in respect to a long list of articles, the down payment on which was fixed at 33½ per cent (or in some cases more), the balance being payable in not more than twelve months. Subsequent orders placed additional articles under the regulations, made some alterations in the terms, and placed limitations on the length of time that charge accounts could remain unpaid.

On October 18, the Prime Minister announced the introduction of the over-all price ceiling. His statement referred to the growing inflationary pressures, the disastrous effects that inflation would have on the war effort and on the solution of post-war problems, and the limitation of selective controls under these conditions. The prices of finished goods could not successfully be controlled, he said, unless their costs of production were also controlled. Consequently, the principle of wage control, introduced at the end of 1940 for wartime industries on a somewhat tentative basis, was to be extended to cover all industry. From then on no employer in industry or commerce, agriculture and fishing being notable exemptions, would be allowed to increase the basic wage rate without the permission of the National War Labour Board or a Regional War Labour Board. A cost-of-living bonus was to be paid, adjustable each quarter if the cost-of-living index at the quarterly date had risen or fallen by one point since the last quarterly date. The principles on which the War Labour Boards were to allow wage increases changed from time to time, and in November, 1943 the cost-of-living bonus was abandoned, the existing bonus being incorporated into the basic wage rate. At that time the government promised to review the whole policy of price and wage control and to take appropriate action if the cost-of-living index should rise by more than three per cent and remain at that level for two consecutive months.

Salary control was announced shortly afterwards, November 6, by the Minister of Finance in the House of Commons. It was considerably more rigid than wage control, without any cost-of-living bonus except at the lower levels and making "up-grading" or "promotion" much more difficult than was the case with wage-earners.

Finally, the Prime Minister referred to the special position of agriculture, pointing out that, with certain notable exceptions, particularly wheat, the prices of farm products had risen most satisfactorily in the

past two years. He then announced that payments, amounting to roughly \$20 million, would be made to western Canadian farmers in order to supplement their incomes and that, in order to make increased feed supplies available in eastern Canada for the production of bacon and dairy products, transportation costs would be paid on feed grain and other feeds from the head of the Lakes to points in eastern Canada.

THE CEILING

Its Provisions

The over-all price ceiling came into effect on December 1, 1941. Its provisions and the necessary enlargement of powers of the Wartime Prices and Trade Board were set forth in two Orders-in-Council adopted on November 1, 1941, and entitled "The Maximum Price Regulations" and "The Wartime Prices and Trade Regulations". Two further Orders-in-Council defining the rentals ceiling and giving the Board the necessary powers to enforce it were passed on November 21, 1941, and were entitled "The Maximum Rentals Regulations" and "The Wartime Leasehold Regulations".¹

The price ceiling applied to all goods unless specifically excepted by the Board and to those services specified in the Maximum Price Regulations. It laid down that, unless the Board ordered otherwise, the highest price at which any person might sell any goods or those services listed in the Regulations was the highest lawful price at which he had sold those goods or services during the four weeks from September 15 to October 11, 1941, which was determined as the "basic period". The Regulations exempted the following types of transactions:

- (a) any sale of goods for export where such export is made by the seller or his agent;
- (b) any sale to the Department of Munitions and Supply or any agency thereof;
- (c) the sale by any person of his personal household effects;
- (d) isolated sales of goods or services by any person not in the business of selling such goods or services;
- (e) bills of exchange, securities, title deeds, and other similar instruments;
- (f) sales of goods by auction in cases where such procedure is the normal practice and is followed in good faith and without any intention of evading or attempting to evade the provisions of the regulations or of any order.

The services to which the ceiling applied were: the supplying of electricity, gas, steam heat and water; telegraph, wireless and telephone services; the transportation of goods and persons, and the provision of

¹For a full list of all Wartime Orders-in-Councils relating to price control see "Statutes, Orders and Official Statements Relating to Canadian Wartime Economic Controls", by Sheila I. Stewart, *The Canadian Journal of Economics and Political Science*, February, 1947.

dock, harbour, and pier facilities; warehousing and storage; undertaking and embalming; laundering, cleaning, tailoring and dressmaking; hairdressing and beauty parlour services, plumbing, heating, painting, decorating, cleaning and renovating; repairs of all kinds; the supply of meals, refreshments and beverages; the exhibiting of moving pictures.

Authority and Responsibilities of the Board

The Board had the power to exempt any good or service from the price ceiling or to include under the ceiling any service not specified in the Maximum Price Regulations. It could fix maximum, minimum or specific prices for all goods and services. It had authority over the production, distribution and selling of those goods and services which did not come under the authority of the Department of Munitions and Supply. It could, however, regulate the production, distribution and selling of goods and services coming under that Department if the action was requested or concurred in by the Chairman of the Wartime Industries Control Board.

There was some overlapping between the Prices Board and the Departments of Agriculture, Fisheries, and Munitions and Supply. The position between the Board and the Departments of Agriculture and Fisheries was clarified by a statement in the House of Commons by the Minister of Finance in February, 1943, which laid down that the two departments would have responsibility for ensuring adequate production of all agricultural or fisheries commodities, for the diversion of those commodities to the armed forces and other priority users, and for presenting to Council recommendations for subsidies to be paid to primary producers. The Prices Board was given the duty of estimating and defining, in consultation with other interested departments or agencies, the over-all domestic needs for food, and was made responsible for food imports, for distribution of all foods to retailers and to civilian consumers, and for all consumer rationing. It also retained the final responsibility in all matters of price.

Overlapping between the Prices Board and the Department of Munitions and Supply arose from the fairly wide range of goods which were used both for war and civilian purposes. The division of authority was made on the general principle that the Prices Board had jurisdiction over those raw materials and end-products which were chiefly required for civilian use and the Department of Munitions and Supply over those chiefly required for war purposes.

The Wartime Prices and Trade Board exercised its powers by Orders issued by the Board or by its Administrators acting under authority granted to them by the Board. Since it functioned in much the same way as the Wartime Industries Control Board and its Controllers, considerable uncertainty arose when, in the latter part of 1942, the defendant to an action questioned the right of a Controller of the Department of Munitions and Supply to issue Orders and received from the court a judgment in his favour. To settle the issue the government immediately referred to the Supreme Court of Canada a question which was, in effect, whether the

Governor-in-Council had power under the War Measures Act to constitute such boards as the Wartime Prices and Trade Board and the Wartime Industries Control Board and to authorize them to exercise the powers vested in them by their own Orders and by Orders of their Administrators and Controllers. The court unanimously decided, in January, 1943, that the Governor-in-Council had such power and that the Orders of the Board and their Administrators and Controllers, if made pursuant to the powers given to them, were valid and enforceable.

The following quotation from the judgment of the Supreme Court outlines the principle on which it was based:

"The powers conferred upon the Governor-in-Council by the War Measures Act constitute a law-making authority, an authority to pass legislative enactments such as should be deemed necessary and advisable by reason of war; and, when acting within those limits, the Governor-in-Council is vested with plenary powers of legislation as large and of the same nature as those of Parliament itself. Within the ambit of the Act by which his authority is measured, the Governor-in-Council is given the same authority as is vested in Parliament itself. He has been given a law-making power.

The conditions for the exercise of that power are: The existence of a state of war, or apprehended war, and that the orders or regulations are deemed advisable or necessary by the Governor-in-Council by reason of such state of war, or apprehended war.

Parliament retains its power intact and can, whenever it pleases, take the matter directly into its own hands. How far it shall seek the aid of subordinate agencies and how long it shall continue them in existence, are matters for Parliament and not for courts of law to decide. Parliament has not abdicated its general legislative powers. It has not effaced itself, as has been suggested. It has indicated no intention of abandoning control and has made abandonment of control, in fact. The subordinate instrumentality, which it has created for exercising the powers, remains responsible directly to Parliament and depends upon the will of Parliament for the continuance of its official existence."

PRICE PROBLEMS AND POLICIES

The introduction of the over-all price ceiling created all manner of problems. These are dealt with at some length in the various reports of the Wartime Prices and Trade Board. The following sections give the barest outline of some of the major problems and the lines along which solutions were worked out. Nevertheless there may be a risk that this summary treatment will leave the wrong impression. We therefore draw attention to the evidence given by Mr. Taylor when discussing the problem of mark-up control which must have been only one among thousands of similar cases with which the Board had to deal.

"It really becomes quite a complicated problem because prices of those commodities can vary quite widely even from day to day. Generally speaking, it is difficult to justify and compel the sale of the same quality goods at different prices on the same market on the same day, and yet even the same importer may have two or three cars of oranges arrive on the same day that left their destinations on different days and which were bought at different laid-down costs.

To meet that situation we have to go into what are rather elaborate prescriptions of paper work in form of reporting car numbers, actual laid-down costs and average costs over very short periods of time. At one stage we even found that we had to require that the car number be marked on each invoice. However, we have been able to simplify that to some extent."

Rising Costs and Other Difficulties

One immediate problem was caused by what is known as the "time lag" in price movements. Goods are normally sold at a retail price based on the cost of the goods when they were purchased from the wholesaler some time previously. The wholesaler has similarly based his price on the cost of goods at the time when he bought them from the manufacturer, the manufacturer's price being in large part determined by the cost of the raw materials and labour at the time that he purchased or employed them. In short, the retail price of an article is based on costs which were incurred perhaps a considerable number of months previously. Consequently, in times of sharply rising prices, the replacement cost will be substantially above the appropriate price at which the goods are being sold. As a result of this, when the ceiling was introduced, many Canadian retailers and other business men found themselves unable to make replacements at a price which would give them anything like the normal rate of return.

Higher import prices and higher shipping costs were also factors. Because of the very large volume of raw materials, parts, or manufactured goods imported into Canada from the United States, the continuing rise in American prices for some months after the introduction of the Canadian ceiling contributed substantially to higher costs. Mr. K. W. Taylor, testifying before the Special Committee on Prices, stated that if American prices had not subsequently been brought under control "the strain on Canadian controls might well have become intolerable."¹ Increased ocean freight rates and marine insurance costs resulted from the spread of the war for the United States entered the war just one week after the introduction of the ceiling.

Two further factors, of importance at the imposition of the ceiling, exercised even greater pressure somewhat later. The first of these was higher labour costs. Labour in agriculture and fishing was not under wage

¹Evidence, Special Committee on Prices, p. 55, and Cf. Chapter 4, External Influences on the Canadian Price Level.

control. All industries included under the Wage Order had to pay an additional cost-of-living bonus of 60 cents a week in July, 1942. In the case of a substantial number of firms the War Labour Boards had regarded their wages as depressed and had approved increases. Many employers engaged in considerable "up-grading" as a concealed form of wage increase to keep workers. Furthermore, the great demand for manpower, and womanpower from the armed services and war industries increased the rate of labour turnover in most civilian industries with the result that more time had to be spent on the training of employees before they could reach normal efficiency. Further a generally less experienced group of people were finding their way into industry and took much longer to train than the pre-war employee, in many cases perhaps never reaching the same efficiency. All of this raised labour costs.

Operating costs also rose for other reasons. For example, decreased production in some industries raised unit costs. In certain cases scarcities of material involved the use of more costly substitutes. Also land transportation had to be used in some cases instead of the normal and cheaper water transportation. Irregularities in the flow of supplies interrupted production and kept machinery and labour underemployed and because the employer did not like to lay off labour for temporary reasons for fear that he would not get it back, his unit costs were increased. Also, by creating unbalanced inventories, these interruptions in supply tended to raise inventory carrying charges.

Another influence on costs was the steady upward pressure of farm prices. The reasons for this pressure and its results have been set forth by Mr. Taylor.¹

"The farm pressure was never intransigent or intractable, but it rarely relaxed. The reason for this was not hard to state, notwithstanding the relatively greater rise in farm prices compared with non-farm prices nor the very great expansion in farm cash incomes. Farm prices are in effect the farmer's wages, and the prominence given to industrial wage discussions brought home to the masses of farmers as never before both the absolute level of urban skilled wages and the rate of increase. Admittedly the ceiling was holding their material and equipment costs effectively, but there was no wage ceiling on farm labour and farm labour was desperately short. Farmers felt that they were being urged greatly to increase production but found themselves without hired help or with indifferent help at two or three times the pre-war wages. Farm labour turnover was extremely high, making it difficult to plan the farm program for the year. In relation to demand the supply of farm machinery was short, and shortages of lumber, repair parts, or milk cans tended to breed an irritated frustration. Agriculture as a whole steadily and sincerely supported the price stabilization program, but there were always good reasons, first for this group

¹Canadian Journal of Economics and Political Science, February, 1947.

and then that, first this season and then next, to press for some adjustment 'to bring them into proper relationship'. Food prices continued to rise until the autumn of 1943, but after that date were held steady for nearly two years, though not without some increases in agricultural subsidies."

The problem produced by rising costs pressing against the ceiling was colloquially known as "the squeeze" and the first method of attacking it was "rolling back and sharing the squeeze". Steps were taken to distribute the increased cost among the retailer, wholesaler, manufacturer, and primary producer or importer, this being done by slightly lowering the ceiling at the appropriate stages of the trade behind the retailer so that the whole burden did not rest on him. At the same time, costs were lowered where possible by "simplification" of production and curtailment of special services. Finally, if these two methods taken together were insufficient and the goods were considered essential, the government either paid a subsidy, remitted import duties, or purchased the raw materials in bulk and sold them to the trade at a loss.

In a limited number of cases, where subsidies or other forms of financial assistance were regarded as inadvisable, price increases were granted. In very few cases, however, was the retail ceiling altered. Neither was it usually the policy of the Board to give financial assistance or permit price increases to compensate for wage increases.

Other Price Problems

Several other problems were encountered. New goods which were not on the market at the time of the basic period required a ceiling price to be established by the Board. Seasonal prices of many basic commodities, particularly agricultural products happened to be at about their low point during the basic period and would normally be expected to rise somewhat at other times of the year even if prices generally were stabilized. There was the problem of "anomalous prices", prices of a particular article sold by a particular manufacturer or retailer which for some reason or other were substantially lower than those for comparable articles sold by comparable manufacturers or retailers during the basic period.

For goods where it was difficult to establish the price at the basic period, or where for other reasons an "individual ceiling" for each seller was difficult to administer, a standard maximum price was established which sometimes varied by regions. In a few cases the goods were exempted from the ceiling. There was a further problem in price-quality relationships, for a deterioration of quality is equivalent to an increase in price and the disappearance of low-priced goods from the market results in an increase in the cost of living.

The various solutions of all of these problems will be discussed in greater detail in the following sections.

Rolling Back and Sharing the Squeeze

Many examples of this can be found in the Prices Board Reports, particularly the first Report. One of the best examples was leather footwear, which was a case involving the sharing of the squeeze, the introduction of simplification measures, and the payment of a subsidy. Soon after the ceiling was adopted it was the judgment of the Board that without relief, shoe manufacturers could not carry on under the retail ceiling. An investigation was made by the Board which indicated that approximately 15 per cent of the manufacturers' ceiling prices would have to be absorbed to enable the industry to carry on without serious difficulty, provided that the cost of leather was maintained at basic period prices. It was arranged that four per cent would be passed on to the wholesale retail group, that the manufacturers would absorb four per cent and that a temporary subsidy would be paid to take care of the remaining seven per cent. A simplification program was then introduced, which took care of about three per cent of the squeeze and made it possible to reduce the subsidy to four per cent. Later still the subsidy was eliminated.

In many cases, the squeeze was absorbed within the industry, and sometimes within one section of the industry. Manufacturers of hosiery, for example, met a 20 per cent increase in the cost of bemberg yarn and a large rayon manufacturer absorbed an increase of two cents a yard. For rayon piece goods an arrangement was made by which manufacturers agreed not to charge more than 10 per cent above the prices they had charged for similar products in January, 1941, although the costs had risen a good deal more. The rest of the trade absorbed the remainder of the squeeze. As an example of "rolling back the squeeze", the prices of all primary cotton fabrics were rolled back to the February 1941 level, and the processors had their raw cotton subsidized down to prices which were appropriate to that level.

Simplification and Conservation Measures

The simplification and conservation program involved the limitation of the number of lines or types of goods that could be manufactured, or services that could be given. For example, the many and varied restrictions on the style of men's, women's and children's clothing, in general were designed to cut down the unnecessary use of cloth without destroying the essential usefulness of the garment. Styles involving "cloth on cloth" were prohibited and the length of ladies' dresses was restricted. There were limitations on the types of paper that could be made, the number of colours and types of paints, the number of designs of cotton print cloth, and countless other things. There was a long list of goods in which no metal could be used other than gold or silver. The form of packaging of a wide variety of articles was controlled and there were limitations on the types and styles of containers. As examples of limited services, there were a number of restrictions on the delivery of goods, perhaps the best known of which was that no order could be delivered when the total purchase was less than \$1.00.

These restrictions were introduced for various purposes, some of them, as has already been indicated, to cut down expenses, and others to conserve scarce goods, labour, or transportation space. However, irrespective of the immediate purpose of their origin, most of them served a number of ends. The limitation on the variety of lines of goods that might be manufactured cut down manufacturing costs because it reduced the time wasted in changing over from one line to the other, and in the same way it saved labour. Fewer lines allowed lower inventories, which both cut expenses by reducing the amount spent on carrying charges and saved materials by reducing the number of items lying idle on the shelves. The restriction on deliveries conserved gasoline, rubber and labour and also reduced operating expenses. Consumer credit restrictions, which were introduced to limit the demand for goods, also had the effect of diminishing the number of bad debts and consequently reducing the expense of carrying and attempting to collect these debts. On the other hand, some of the conservation measures resulted in higher rather than lower operating costs by forcing the manufacturer to use a more expensive substitute; some of the limitations on the use of metal had this effect.

All of these restrictions resulted, of course, in limiting competition in regard to the variety of good or service offered—a very important form of competition. If they had been initiated under normal conditions by the industries themselves for the purpose of preventing the resulting economies from being passed on to the public instead of having been imposed by a government authority acting in the public interest they would most certainly have aroused the concern of the Commissioner of the Combines Investigation Act. The post-war implications of the imposition of these restrictions, many of which seemed to be welcome to the industry in question, are discussed later in Chapter 11.

Subsidies, Remission of Duties and Trading Losses

Subsidies, remission of customs duties and bulk purchasing leading to trading losses can all be covered under the one heading for they were different means of achieving the same end, and the principles governing them were essentially the same. Subsidies and other financial assistance were given either when the “squeeze” of costs against the ceiling was so great that a curtailment of production was threatened or when it was felt that a higher return to the producer would encourage additional production of an essential article. Most of the subsidies of this latter type known as “incentive subsidies” were paid by the Department of Agriculture or the Department of Munitions and Supply, but there were a few which fell within the jurisdiction of the Wartime Prices and Trade Board. One example was canned fruits and vegetables, (later extended to jams and jellies) fruit and vegetable containers and wood fuel. To encourage the maximum production of these commodities, it was considered desirable to protect the producers against possible loss resulting from stocks being left on their hands at the end of the season. Consequently the Board undertook to purchase any surplus stocks at an agreed price.

At this point it may be useful to summarize some of the arguments used to explain the purpose of subsidies.

A good deal of emphasis was placed upon the point that subsidies were paid in the interests of consumers. As a matter of administrative efficiency, the actual subsidy payments were made at the point in the industry where there was the smallest number of concerns and as near the start of the process as possible, that is, the manufacturing or importing level rather than the wholesale or retail level. But the subsidy was not intended to benefit those to whom it was paid. The purpose of all subsidies was to permit goods to be sold at a lower price than would otherwise have been possible.

Another question was raised from time to time, namely, what real benefits were obtained from subsidies, even admitting that they resulted in lower prices, since the money to pay for them came out of the pocket of the consumer in the form of taxes? The answer given by the Board was in two parts, first, that the payment of subsidies at an early stage of the process prevented pyramiding of costs and therefore cost a good deal less than the rise in price that would otherwise have occurred and, second, that whereas the burden of rising prices for essentials of life falls on the rich and poor alike, taxes are to a considerable extent levied in accordance with ability to pay.

Various statements outlining the principles on which subsidies on imported goods would be paid were issued from time to time; the principle that the subsidies would be paid only on goods which were both essential and came under the price ceiling was continually adhered to. For example, no subsidies were payable on goods destined for sale to the Department of Munitions and Supply or for export but the lists of goods which were declared ineligible for subsidy and those requiring approval prior to the importation of the goods both became progressively larger.

Early in 1942 a "limitation of subsidy formula", popularly known as "profit control", was introduced in the case of certain industries, in consultation with the industry, and was subsequently extended with appropriate variations to meet individual cases, to a wide variety of industries. It was explained to us by Mr. Taylor in his evidence that it was not the policy of the government to subsidize any company into earning "excess profits" and thus a subsidy was regarded as an accountable advance and was repayable to the extent that the company's earnings exceeded $116\frac{2}{3}$ per cent of "standard profits". This was the point at which the 100 per cent excess profits tax became effective. Consequently any company receiving subsidies and being in the excess profits tax bracket was deprived of the 20 per cent portion of the tax which was refundable after the war. The explanation given by the Minister of Finance was "that the subsidy in conjunction with the special conditions attached to it should leave the industry in a worse, not a better, profit position than before the price ceiling was imposed."¹

¹House of Commons Debates, April 23, 1942.

The profit control clause in subsidies served two purposes. Firstly, it permitted the Board to pay subsidies to an industry, in the knowledge that all subsidies contributing to excess profits on the part of the more efficient companies would be returned to the Treasury. This, of course, was in effect subsidizing only the less efficient companies in the industry. Profit control also permitted the Board to give immediate assurances of protection to an industry which was facing great uncertainties and did not know whether or not it could continue to produce without loss. The Board knew that if conditions subsequently turned out to be better than had been represented, and the subsidy proved to be unnecessary, it would be returned to the Treasury.

It was pointed out in evidence before us by Mr. Taylor that the effect of the profit control clause in limiting the total amount of subsidy payments was very great. However, it seems to us impossible to measure statistically the effect, because we are informed that as soon as the formula became known and its operation understood, a very considerable number of companies did not apply for subsidy, knowing that they were in the excess profits tax bracket and would merely have to refund what they received.

In his evidence before us Mr. Taylor stated that the total amount paid out in subsidies under the jurisdiction of the Wartime Prices and Trade Board was \$398 million from December 1, 1941, to March 31, 1948, and of this amount approximately \$230 million were paid on imported goods, the remaining \$168 million being on domestic goods. In addition, net trading losses on bulk purchases amounted to \$69,900,000. This figure, however, related only to trading losses of the Commodity Prices Stabilization Corporation¹ and other affiliated companies of the Prices Board and did not include the accounts of the Sugar Administration which, as of August 31, 1948, had a reserve fund built up largely out of profits on imports of raw sugar, amounting to \$17,178,000. These subsidy figures do not include certain important subsidies on food products paid by the Department of Agriculture or by the Department of Finance and also certain subsidies paid by the Department of Munitions and Supply which amounted during the same period to approximately \$500 million.

Before leaving the question of subsidies and other forms of financial assistance, reference should be made to certain subsidies introduced late in 1942 for the express purpose of holding the cost of living stable. As the first Report of the Prices Board described the situation, between October 1, 1941 and July 2, 1942, the cost-of-living index rose by 2.4 points (August 1939=100), which meant an increase in the cost-of-living bonus of 60 cents a week. On November 1, 1942, the index had risen by another 0.7 points, and there seemed little doubt that before long a further increase in the cost-of-living bonus would become necessary. A steadily increasing cost-of-living bonus raised costs and would have made it progressively harder for the Prices Board to disregard wage increases as a reason for financial

¹A Crown Company operating under the direction of the Wartime Prices and Trade Board.

assistance. Further, the rise in the cost of living affected everybody in the country whereas important sectors of the economy were excluded from the cost-of-living bonus.

To offset the increase in the cost-of-living index between October 1, 1941, and July 2, 1942, which had been caused almost entirely by an increase in the price of food the government decided to introduce a program of subsidies and remission of duties expressly designed to lower the cost of milk, oranges, tea and coffee. The action was effective. In the month between December 1, 1942, and January 1, 1943, the cost-of-living index declined by 1.7 points to a level only 0.8 of a point above that of November 1, 1941. From that date until the end of 1945 the cost-of-living index rose by only 3.8 points.

Price Increases

The price increase for coal was of rather special interest for it was the only occasion on which a price increase was granted explicitly because of a wage increase. Late in 1943, there was a strike in the western Canadian coal fields and wage increases of \$1.00 per day and holidays with pay were granted as the result of a recommendation by a Royal Commission. Shortly thereafter substantial increases were also granted to coal miners in Saskatchewan and Nova Scotia by the National War Labour Board. It was considered that the mine operators could not themselves meet these higher production costs, so the government authorized an increase in the price of domestic coal and directed the Wartime Prices and Trade Board to determine the appropriate amount.

New Goods not on the Market at the Time of the Ceiling

New goods became an increasingly important matter as key materials became scarce and more substitutes had to be used. It was important, in many cases, that commodities manufactured from these substitutes should be made available, but the Board had to take particular care to see that the device of "new" goods was not used, as it easily could have been, to obtain a hidden price increase for goods that were essentially the same as the "old" goods. New goods were divided into three classes:

- (a) "Identical goods": goods which, while not being sold by a particular retailer during the basic period, were sold by other retailers; they were given the same ceiling price as that applicable to the same goods being sold by a competitive seller.
- (b) "Similar goods": goods that were similar in usefulness, durability, etc., to certain "standard goods" (that is goods on which a ceiling price had been established). These were given a maximum price corresponding to the ceiling for the goods to which they were similar.
- (c) "Dissimilar goods": goods which differed in usefulness, durability, etc., from "standard goods". These included articles which had been off the market during the basic period because materials to make

them were not available, but which in 1943, and 1944, began once again to come on the market. The main consideration in pricing these goods was to put them at the level at which they would have sold if they had been available during the basic period.

Seasonal Goods

These fell into two classes: those manufactured goods not normally sold during the basic period, such as some sports goods; and basic commodities, particularly agricultural products, which are subject to seasonal variation and were at a low point during the basic period. The principle the Board applied in regard to manufactured seasonal goods was to price them at their 1941 level with an appropriate allowance for the price rise that would have taken place between the time when they were sold during that year and the September-October basic period.

In regard to basic products, the Board's general policy was to permit what would have been a normal seasonal price increase from the basic period level, and in the case of certain products fluctuating seasonal maximum prices were worked out. Meat was an example of this, but the Board eventually found it desirable to drop the seasonal variation at the wholesale price level and to make provisions to see that any seasonal drop in wholesale prices would be passed on at the retail level.

Anomalous Prices

Problems of this nature were fairly numerous during the first few months of the price ceiling and were of quite considerable importance, but they were of a non-recurring nature. They concerned a particular manufacturer or distributor who for specific reasons had sold goods during the basic period at a lower price than his competitors, but who could no longer afford to do so. It was the general policy of the Board to allow such prices to be raised to the competitive level for the same goods in the same locality.

Standard Maximum Prices

The price ceiling, as has already been pointed out, was based on "individual ceiling prices", that is, a ceiling price based on the maximum price charged for the article in question during the basic period. In certain cases it appeared impossible to ascertain the individual seller's maximum basic period price; in fact, from the outset ceiling prices for farm commodities were the maximum prices recorded for their commodity on the market during the basic period rather than the highest individual selling price.

The Board found that in a number of other cases, particularly in food products, it was extremely hard to check the basic period price of the individual seller, and consequently enforcement of the ceiling was difficult. The Board therefore adopted the practice of establishing "standard maximum prices" which replaced the individual ceiling prices for the commodity in question. These standard maximum prices were in some cases fixed at the retail level, and in others at the wholesale level with a prescribed maximum mark-up.

An interesting example of standard maximum prices was meat. A standard pricing system for beef sold at retail was first introduced on an experimental basis in the Toronto and Winnipeg areas early in 1943. Shortly thereafter, with some modification as a result of the experience gained it was extended to 13 additional areas, all in eastern Canada, and a little later still was extended to the whole Dominion.

Two quite complex problems had to be worked out before these standard meat prices could be set. First, a system of standard cuts had to be agreed on, and this involved a good deal of study and discussion because the method of cutting up a carcass varied greatly, not only from locality to locality, but from store to store. When the standard cuts were decided upon, a chart clearly showing these cuts was issued for display in retail stores. The next problem was to ensure that the maximum retail prices would reflect any decline in the wholesale price of beef. A seasonally fluctuating maximum wholesale price was found to be unsatisfactory and had been dropped in favour of a fixed wholesale price ceiling, but it was anticipated that at certain times of the year the wholesale price of beef would drop below this ceiling. To ensure that such declines were passed on to the consumer the retailer was required to vary the price of his cuts according to the actual average cost of beef of the same quality bought by him in the previous week. So that there would be no confusion in the mind of the consumer as to the current maximum price, retailers were supplied with price charts and with attachable price strips which showed the retail price of each cut appropriate to varying average wholesale prices. Subsequently, similar systems of standard maximum prices were introduced for other meats.

Exemptions from the Ceiling

In a few cases where the importance of the article to the cost of living did not seem to justify the expensive and complicated administrative machinery to maintain price control, goods were exempted from the ceiling. Examples of these were books and other printed matter, philatelic specimens, paintings and other works of art, furs and garments made wholly of fur.

In some instances, extreme administrative difficulties caused goods that were considerably more important in living costs to be exempted, fresh fruits and vegetables and fish being cases in point. Fresh fruits and vegetables were particularly difficult to control because of the manner in which changes in quantity normally caused the price to fluctuate widely, even from week to week, and also because variations in size and quality made classification difficult. However, in 1942 and 1943 shortages of these articles caused such sharp price rises that, while still recognizing that these difficulties might prove serious barriers to effective price control, the Board decided that to attempt to impose a ceiling was the lesser of two evils. Potatoes and onions were brought under the ceiling in February and March, 1942, oranges in September, 1942, peaches, pears, plums, grapes and apples in the early summer of 1943, and imported grapefruit and

lemons, carrots, cabbages, beets, parsnips and turnips in October, 1943. Similarly the increased demand for fish which followed the imposition of meat rationing in 1943 made it desirable to impose a ceiling on several kinds of fish which had previously been exempted.

Newspapers, magazines and periodicals, both Canadian and imported, were exempted from the ceiling in August, 1942 for a rather special reason. The producers of many of these publications were experiencing increased costs and declining revenues, but it was considered too difficult to find a workable basis for a price increase because of the widely varying circumstances of each publication. A subsidy or other form of government financial assistance was regarded as being incompatible with the freedom of the press, and therefore the only solution seemed to be to exempt them from the ceiling.

A number of items were exempted from the ceiling in the case of sales between producers and processors or dealers on account of administrative difficulties. The Board felt that the ceilings at the processing and distributing level would keep the price of the primary product in line. Items of this type were sales by the primary producer to the manufacturer or dealer of livestock, poultry, fish, eggs, dairy products, honey, onions and potatoes, although such goods came under the ceiling if sold by the producer directly to the consumer.

Certain types of transactions, as opposed to specific commodities, were exempted from the ceiling in the original Maximum Price Regulations and two of these perhaps merit some consideration. Goods for export, where such export was made by the seller or his agent, were exempted because the purpose of the price ceiling was to protect the Canadian consumer and not the foreign consumer.¹ In the case of certain commodities, wheat, feed grains, maple sugar and syrup, schemes were eventually worked out whereby the export premium was collected by a surcharge or through government control of exports and passed back directly or indirectly to all the producers of that commodity.

Goods sold to the Department of Munitions and Supply or to any agency thereof were also an important exemption from the ceiling. This was done because the bulk of such goods were of non-civilian type, tanks, shells, gas masks, parachutes, etc. An understanding was reached that the Department would not purchase any civilian type goods at prices above the ceiling without explicit price clearance from the Board.

Price Quality Relationship

The Board regarded deterioration of quality or discontinuation of a service as tantamount to a price increase. In some cases, however, where the deterioration or discontinuance was forced on the manufacturer or distributor by government restrictions, and particularly if the changes had little effect on the usefulness of the goods, such as style changes or restrictions on deliveries, the Board was inclined to regard the savings

¹For a few months in 1945 and 1946 wheat was subject to an export ceiling of \$1.55 by Order-in-Council P.C. 6122, dated September 19, 1945.

to the trade which resulted from these restrictions as a reasonable means of offsetting higher operating costs and did not require a corresponding reduction in price. On the other hand, the Board attempted to prevent any unauthorized or avoidable degradation of quality or discontinuation of services.

A Standards Division was set up for the purpose of investigating any complaints of degradation, and a system of price tagging and identification labelling was applied to the majority of clothing and footwear articles so that any degradation that took place could be more easily established. To prevent manufacturers from trying to increase their profits by reducing their production of low price lines, on which the profit margin was normally small, and increasing the output of higher price lines with the larger profit margin, a Board Order required that manufacturers should continue to produce the same proportion of low price goods as was produced in the basic period.

SUPPLY PROBLEMS AND POLICIES

To divide the activities of the Prices Board between "prices" and "supply" is to make a distinction of method rather than of purpose. All the price decisions of the Board affected supply.

However, even though prices and supply were interrelated a separate treatment of supply is valid and useful because there were certain problems of supply which could not be solved by price adjustments but which required direct action. These activities fell into three main categories: (a) making arrangements to obtain necessary imports when the commodities were controlled by International Boards, commonly known as "Combined Boards", or by a foreign governmental agency, and to transport these goods to Canada; (b) seeing that the goods available in Canada, whether imported or domestically produced, were used to the best advantage; and (c) endeavouring to ensure that essential amounts of necessary goods were produced.

Getting the Goods from Abroad

A large proportion of the exportable supplies of essential materials were allocated by Combined Boards sitting in Washington. Among the most important of these Boards were the Combined Production and Resources Board, the Combined Raw Materials Board and the Combined Food Board. Raw materials and civilian goods produced in the United States were allocated by the Requirements Committee of the United States War Production Board.

Canada was a member of the Combined Production and Resources Board and the Combined Food Board; she was not a member of the Combined Raw Materials Board but information concerning her available supplies and her requirements were submitted to this Board usually through the medium of the Joint Materials Co-ordinating Committee (a joint Canada-United States committee). Canada's case was laid before the Requirements Committee of the War Production Board and its various divi-

sional requirements committees by the Canadian division of the United States War Production Board, with which the Washington office of the Wartime Prices and Trade Board maintained close and continuous contact.

The negotiations entailed in getting Canada's required allotments of scarce materials through the medium of these various Boards were necessarily complex. But even when allocations had been arranged, further negotiations had to be undertaken for purchase and, when the goods were controlled by some foreign governmental agency, bulk purchasing was necessary irrespective of whether or not a trading loss had to be taken. Finally arrangements had to be made for shipping space to bring the goods to Canada, involving a further series of technical negotiations.

Obtaining the Best Utilization of Materials

We turn now to the allocation of goods in Canada as between war and civilian requirements. This entailed a close liaison between the Board, which looked after civilian materials, and the Department of Munitions and Supply, which was primarily concerned with control of war supplies.

In the field of clothing and footwear, a National Textile and Leather Requirements Committee was formed in 1943, on which there were representatives from the three branches of the armed services, the Department of Munitions and Supply and the Wartime Prices and Trade Board, the representative of the Board being the Chairman of the Committee. This Committee reported directly to the War Committee of the Cabinet; its principal function was allocation of available supplies of textile and leather between the armed services, the civilian population and the Mutual Aid program.

In foods, the responsibility for domestic distribution, including allocations to the armed forces, rested with the Wartime Prices and Trade Board. An interdepartmental committee known as the Food Requirements Committee considered all major questions of policy connected with food production and supply in Canada and the supply of Canadian foodstuffs to other nations.

Another facet of materials allocation was the protection of domestic supply by export controls. These controls were administered by the Export Permit Branch of the Department of Trade and Commerce. Where exports were regulated by international agreement or by an allocation made by one of the Combined Boards, programs were worked out by the Prices Board in co-operation with other government departments concerned and with representatives of both the receiving countries and other supplying countries.

The allocation of materials in short supply among various manufacturers in Canada was handled by the Board. The method adopted varied widely from industry to industry, in some cases being by informal arrangement, and in others, by a formal permit. In the case of newsprint, for example, the administrator set a quota for each user and gave him a permit for the appropriate amount.

The allocation of labour was in the hands of the Department of Labour and its affiliated bodies. The Prices Board was concerned to see that, as far as was possible, the necessary quantities and types of labour were available for essential civilian production. The Board was, therefore, represented on the interdepartmental Labour Priorities Committee, which continuously surveyed and revised priorities.

Another policy had to do with the control of new businesses, which was exercised through the Board's licensing powers. During the period of acute shortages it was the Board's general policy (to which there were few exceptions) to allow no new concerns to start up business in any lines involving scarce materials and, complementary to this, to allow no existing firm to change or expand its business in any way that would involve the use of scarce materials.

Obtaining Essential Production of Necessary Goods

In a number of cases the production of necessary civilian goods appeared to be falling below the minimum essential level. In some cases, such as metal-using goods, this was due to a shortage of materials and appropriate labour, but in certain other cases (clothing being a prominent example) a most important factor was the increased demand resulting from rising incomes. There is little doubt that before the war many people in the lower income groups, both children and adults, were poorly clothed. As unemployment disappeared and incomes rose, the demand for clothing increased rapidly. The sharp wartime increase in the birth rate added to the demand for infants and young children's clothing and accessories.

In cases such as this, the Board, having been given the responsibility to see that minimum essential needs were satisfied, took action designed to increase production of the necessary articles. It did this by a technique known as "programming production", sometimes using for this purpose "production directives". The precise method of programming varied in different types of goods, but in clothing and footwear, which was by far the widest field in which programming took place, the system was as outlined in the following paragraph.

A production quota was given to each manufacturer, the size of the quota depending upon the requirements and the current facilities of that particular firm. The manufacturer was, in the first instance, expected to use any raw material inventories that he might have. If part of his plant was occupied in making goods not under a directive, he was expected to make any necessary transfers of labour from the production of those goods to the production of the "directed" goods. When these measures had been exhausted, the Board granted priorities to any manufacturer requiring raw materials in order to fill his quota. If there was a shortage of labour the Board presented the case to the Interdepartmental Committee on Labour Priorities. This Committee might take one of the following steps: request National Selective Service to assign higher labour priority ratings; recommend deferment for key workers; or sponsor drives for more labour of the type required. If the manufacturer was impeded by lack

of the requisite machinery the Board sponsored his priority application. Firms which were under production directives were required to give periodic reports to the Board.

In 1943 all types of knitted cotton and woollen underwear, infants' and children's fall and winter garments, and children's shoes, were under directives. In 1944 men's and children's socks and stockings, women's full length hosiery, men's worsted suiting fabrics, men's and boys' heavy woollen work garments, boys' light weight woollen clothing and overcoats and infants' and children's knitted outerwear were added to the list. In 1945 directives were further extended to cover men's suits, overcoats, top-coats, separate trousers, caps and work shirts, and women's coats, suits, dresses, shirts and work slacks.

In a number of other cases, notably primary textiles and various metal household goods, the programming was less and no directives were issued. In the case of farm machinery a percentage quota for each class of machine based on 1940-1941 production and imports was applied equally to all manufacturers and importers.

The Board's attitude towards luxury items can be summarized as follows: in the first place, as the 1944 Report expresses it, the Board considered that its responsibility was "limited to assuring sufficient supplies to provide for the essential needs of the civilian population, it does not extend to seeing that people get exactly what they want or all they want". Consequently, beyond what action was necessary to obtain essential supplies, to maintain the price ceiling and to secure equitable distribution, the Board did not consider that it had any mandate to interfere with the normal functioning of the economy. Secondly, there was no guarantee that the prohibition of luxury items, many of which were produced in small and specialized plants, would result in any noticeable increase in the production of necessary items. Therefore, aside from the simplification and conservation program already introduced, the Board confined itself to the positive action of ensuring, by these production programs, that essential quantities of necessary goods would be obtained.

DISTRIBUTION PROBLEMS AND POLICIES

Equitable Distribution to Retailers

There was some danger that the normal flow of distribution might be interrupted when a commodity was in short supply. Areas close to the centre of supply might get better treatment than those further away; some dealers might favour certain types of retailers, say the large chain stores, at the expense of others, and so on. As a means of preventing this the Board adopted what was known as the "Policy of Equitable Distribution", which in brief required that, when suppliers, that is, manufacturers and wholesalers could no longer supply the full requirements of retailers, they were to allocate their available supply among their customers according to the proportions supplied to each in the year 1941. Arrangements were made for adjustment of a quota when the amount taken in 1941 had

been abnormally low, or in the case of a community where there was an extraordinary increase in the civilian population. In order to allow for possible increases in the quotas of certain retailers, suppliers were requested to hold back a proportion of their goods to form a "kitty" out of which additional allocations could be made.

In certain cases, notably that of canned vegetables, the general policy had to be supplemented by special measures. Due to raw material shortages on the one hand and increased demand on the other, canned vegetables were in short supply during 1943. A system of coupon rationing would not have solved the problem, because the consumption of canned vegetables varied widely from group to group and locality to locality, depending in part on the availability and price of fresh vegetables. The system of equitable distribution tended to allocate the supplies to those areas which normally used the large quantities, but it was felt desirable to supplement this system by direct allocations to certain priority users, for example hospitals, lumber camps, and large institutions.

Consumer Rationing

Consumer rationing can be undertaken in two main forms, by coupon and by permit, and each form has a number of variations. Coupon rationing is at its best when the commodity is used widely and in roughly the same amount by most people, and when the production of the commodity is in the hands of a few firms. Sugar is a good example. It came under ration in July, 1942.

Tea, on the other hand, is a different proposition. A large number of Canadians drink substantial amounts of tea but an approximately equal number drink little or none at all. If the ration were fixed on the basis of the average per capita consumption the amount would come well below the reasonable minimum requirements of the regular tea drinker, but if it were planned to give the tea drinker a reasonable minimum, then many people would have had excess coupons. Some of these coupons might well find their way into the hands of tea drinkers and the net result would be no reduction in the consumption of tea, possibly even an increase. In the case of tea, however, it was possible to overcome this difficulty by rationing it together with coffee¹ so that each coupon gave the holder the choice of buying a specific amount of either tea or coffee.

In rationing butter² and meat³ it was recognized that little could be done to curtail the consumption of the primary producer. Consequently no limits were put on what he could use of his own production. He was, however, required to collect coupons for any products that he sold and to turn them in to the local ration board. Farmers who supplied their own meat were required to turn in up to one-half of their coupons. To assist in the control of meat rationing all slaughtering was made subject to licensing, except that farmers might slaughter for their own use or for sale to other farmers without a license.

¹Imposed in August, 1942.

²Imposed in December, 1942.

³Imposed in May, 1943; suspended, March, 1944; reimposed, September, 1945.

A variation of coupon rationing was adopted for meat. Certain cuts of meat obviously contain more bone, fat, gristle, etc., than others. To give each person an approximately equal share of edible meat the cuts were classified into four groups, the coupon value for each class being fixed according to the proportion of edible meat. Thus, since the basic ration was two pounds of meat at the average carcass weight, coupons entitled the purchaser to three pounds per week of the cuts with a high bone content but only one pound per week of cuts containing no bone at all. Cuts containing more than 50 per cent of bone were exempted from the ration, as also were edible offals on account of their perishable nature.

Yet another type of coupon rationing was introduced in September, 1943, for "preserves", covering canned fruit, jams, jellies, marmalades, molasses, honey, maple syrup, and other sweeteners. As the Board Report for 1943 pointed out, all of these items were in short supply, at least regionally or temporarily. None of them was sufficiently widely used nor in sufficient supply to warrant a separate ration. Because they were all interchangeable for each other as desserts or sweeteners, a system of group rationing was introduced which gave the purchaser the choice of any of these items for his coupon. The quantity of each item obtained per coupon was varied from time to time according to the available supply. One-half pound of sugar, independent of the normal sugar rations, was allowed as an alternative so that those who wished to make jam or marmalade could do so.

In rationing by coupon a number of special circumstances had to be met. Arrangements were made to provide rationed goods for so-called "quota users", hotels, hospitals and other institutions, boarding houses, etc., and also to industrial users of sugar and butter. Restrictions were placed on individual consumption of rationed goods in restaurants. In the case of sugar, provision was made for extra quantities for certain types of invalids on a medical certificate. But the Board decided against differential rationing on an occupational basis.

Permit rationing was used as a method for goods which were essential to certain groups in the community or which were purchased infrequently. At various times during the price ceiling permit rationing was applied to farm machinery, electric stoves, typewriters and office machinery, telephone services, protective rubber clothing, railroad watches and small arms ammunition.

A hybrid system was introduced for evaporated milk. A shortage in this commodity developed in 1943. The main elements in the problem were firstly, that in certain areas there was a deficiency of fluid milk, and secondly that, even in those areas where the fluid milk supplies were adequate, certain classes of people, infants and invalids, required evaporated milk for special reasons. The large proportion of evaporated milk supplies was, therefore, shipped to the fluid milk deficiency areas. In other areas, evaporated milk could be obtained only on presentation of what was known as a "ration document". While this document contained coupons, each of

which was good for a certain amount of evaporated milk, it was in essence a form of permit rationing rather than coupon rationing, for the coupons were given only to those with special needs.

RENTALS

The adoption of the over-all price ceiling in the fall of 1941 involved the extension of rental control from residential accommodation in a limited number of designated areas to all properties throughout Canada other than farm land. In essence, rents were frozen at the level at which they were on October 11, 1941, except for housing accommodation in those localities where rental control already existed, in which case the previously established basic rates were retained. Eviction control, to provide security of tenure for the well-behaved tenant, was an essential complement of rental control. Otherwise the power to evict would have been a potent instrument in the hands of a landlord wishing to obtain an unlawfully high rent from existing or new tenants.

Rental and eviction controls raised a wide variety of problems, many of them of a somewhat different character from those of price control. They had their origin in the main in four circumstances. First, there was a wide variation in the position of individual landlords; for example, one bought his property at a far lower price than another and thus could show a profit at a lower level of rents. Second, rentals between similar houses in the same or similar localities sometimes varied substantially. Third, eviction control interfered with contractual arrangements and legal rights to a greater degree than price control. Fourth, evictions during a period of shelter shortage not unnaturally created a highly charged emotional atmosphere. The following is a brief summary of the various measures taken to meet these problems.

Housing Accommodation

Changes in Maximum Rentals

Under the first rental order, applications from a landlord or tenant for a change in the maximum rental were heard by Rental Committees, each of which consisted of a County or District Court Judge (excepting in Quebec where judges or magistrates were specially appointed in collaboration with the provincial authorities). Appeals from the decisions of these Committees were heard by an Administrator of Rental Appeals. In October, 1943, however, the Rental Committees were replaced by Rental Appraisers, who were specialists in the real estate field and who could devote their whole time to the administration of the rental ceilings. At the same time the machinery for appeals was decentralized, the single Administrator being replaced by a number of district Courts of Rental Appeal, consisting of a judge, judicial officer or barrister.

The five main grounds on which an increase in rent might be granted, according to the original order, were: substantial increase in taxes on the property; added services not previously given by the landlord; substantial

structural alterations; increased wear and tear; a lower fixed rent than generally prevailing because of concessions of exceptional nature, for example, where the landlord had rented to a relative at a special rate during the basic period. The tenant might be granted a reduction in rental if there was no maximum rental as of October 11, 1941, and the rental set by the landlord was higher than the rental generally prevailing on that date for similar accommodation in the neighbourhood; if there had been a lessening of the accommodation or service; if there was a decrease in the landlord's taxes or rates.

In 1943, certain changes were made. "Wear and tear" and "maximum rental lower than the prevailing rate" were no longer regarded as valid reasons for seeking an increase in rent but under certain conditions an increase might be granted if the tenant was sub-letting more than two rooms and was not doing so when the maximum rental had been last fixed. So as to ensure that rentals would vary in accordance with the service provided, an order prohibited the lessening of heating, lighting or water service supplied by the landlord without the consent of the tenant unless a permit was obtained from the Rentals Appraiser or unless the reduction of service was due to a government order or fuel not being available. Whenever the service was reduced the tenant could apply for a reduction in the maximum rent. At the same time, the provision granting a decrease in rental if the landlord's taxes or rates had decreased was removed from the regulations.

In 1944, steps were taken to prevent the evasion of the Maximum Rental Regulations in regard to new tenants by certain practices such as the payment of "key money", the payment of rent for a considerable advance period, or the compulsory lease or purchase by the tenant of furniture at an exorbitant rate. The order prohibited any landlord from requiring a tenant to pay more than one month's rent in advance or any commission, bonus or reward. If furniture were rented or sold as a condition of obtaining a lease the rent or price had to be fixed by a Rentals Appraiser.

So that nothing would be done to discourage whatever degree of new residential construction was possible during the war, the rental of buildings constructed or converted since January 1, 1944, was fixed in relation to the cost of construction rather than to the basic date level.

Eviction Control

At the outset, the right of a landlord to evict a well-behaved tenant at the termination of his lease was abrogated, but certain specific grounds on which the tenant could still be evicted were listed in the original order. The most important of these were the intention to convert the house for other uses or sub-divide the living space; expected occupation by the landlord or by some member of his family or by an employee, and sale for vacant possession. Throughout the history of eviction control security of tenure has been granted only to the well-behaved tenant; one who was "obnoxious", failed to pay his rent, or broke any other material provision of his lease could always be dispossessed.

In April, 1942, a provision was included in the regulations that a landlord must give a minimum of three months' notice for any termination of lease. Any landlord seeking possession of a tenanted dwelling which he himself had purchased on or after December 10, 1942, had to give 12 months' notice.

In October, 1943, the provisions were further altered. The conditions under which a well-behaved tenant could be required to vacate were reduced to two: if the landlord desired the accommodation as a residence for himself or members of his family for at least one year; if the landlord desired to sub-divide the residence so as to accommodate more persons. The length of the notice was fixed at six months irrespective of the date of purchase of the property if the landlord desired the accommodation for himself or his family; it remained at three months if he wished to sub-divide the accommodation. Furthermore, in the case of a monthly or weekly lease the tenant could not be required to vacate between September 30 and April 30, and in the case of half-yearly or longer leases the notice to vacate had to coincide with the termination of the lease in accordance with the requirements of provincial laws.

In January, 1944, the power to evict a tenant was still further restricted in regard to "multiple family dwellings" (flats, apartments, etc.). There were clear indications that in certain places a landlord was seeking to evade the rental regulations by moving out of an apartment that he occupied and notifying the tenant of another apartment owned by the landlord to vacate on the grounds that he, (the landlord) wished to occupy it. In this way the apartment previously occupied by the landlord became vacant and could be re-let at a higher rental. The new regulations therefore stated that the landlord of a "multiple family dwelling" could dispossess a tenant only if he required the accommodation for himself and not for a member of his family and only if he did not already reside in another unit in the same building or in another "multiple family building" owned by him in the same municipality.

By the summer of 1945, the shelter shortage had become more acute. While some housing construction had taken place, the demand had increased much more rapidly due to the high marriage and birth rate, the return and demobilization of members of the forces, and the natural desire of many people, who during the war had given shelter in their own homes to strangers, to require their houses for themselves. To obtain accommodation in these difficult circumstances many people had purchased houses with a view to dispossessing the tenants and occupying the accommodation themselves. The number of notices to vacate, therefore, began to assume large proportions. The Report of the Wartime Prices and Trade Board for 1945, states that notices to vacate maturing in the three summer months of that year amounted to about 3,500 in Toronto, 1,100 in Vancouver and 700 in Winnipeg.

In view of this situation, the government instructed the Prices Board to place a complete "freeze" on the leases of all housing accom-

modation. All outstanding notices to vacate were cancelled, but provision was made in such cases for a landlord to apply to a Court of Rental Appeal for permission to dispossess the tenant, and the decision was given on the relative needs of the landlord and the tenant. The only exception to this "freeze" was in favour of veterans, who could evict a tenant, if the veteran had let his home when he joined the services; had before the war occupied accommodation owned by an immediate member of his family and who now wished to regain that accommodation; or had an immediate relative owning a "multiple family dwelling", who was willing to allow him to occupy one unit of it. The government recognized that this total "freeze" would cause hardship to many landlords, who would be unable to regain possession of their houses even for their own use, but this was regarded as the least of the various evils.

Securing Maximum Accommodation

In October, 1942, the Prices Board took two important steps to secure maximum accommodation from the available housing. An order was issued permitting householders in certain designated congested areas to share accommodation, that is, take in roomers or boarders or to sub-let, notwithstanding any provisions in their leases or by-laws, deeds, etc. to the contrary. At the same time, voluntary local campaigns to encourage householders to let their spare rooms were undertaken by the Consumer Branch of the Prices Board. In a number of cities Housing Registries were set up, at which householders were invited to register their available rooms and prospective tenants to apply for accommodation.

Late in 1944 the government extended its activities in close collaboration with voluntary bodies and local authorities in trying to ease the housing shortage. In 1942, the Department of Munitions and Supply had introduced a form of control over housing in Halifax and had subsequently extended it to all Atlantic ports. In December, 1944, the government gave the Wartime Prices and Trade Board the broad power to "co-ordinate all activities relating to the transfer of population into such (congested) areas and to the control and use of available shelter therein".

Certain areas were designated as "congested areas"; Emergency Shelter Administrators were appointed, and thereafter permits were required by all persons before they could move into family accommodation in such areas. These permits were generally freely given to anyone already residing in the area but were closely restricted for people wishing to move into it. It was the practise of the Board never to designate any place as a "restricted area" unless specifically requested to do so by the municipal authorities. The areas named were Ottawa, Vancouver, New Westminster, Victoria, Toronto, Hull, Hamilton and Winnipeg, in addition, of course, to the Atlantic ports already under control.

About the same time, a registration was undertaken of summer cottages and vacant dwellings in many areas. Owners of vacant accommodation were interviewed and many were persuaded to make them avail-

able for occupation by families in need of homes. In a few cases, where the owner refused to do so, the powers of the Administrator to compel him were invoked.

By the fall of 1945 it became necessary to abandon the permit system in congested areas, because the return of the ex-service men was proceeding in such volume and producing so many requests for permits that the system became unworkable. The other functions of the Emergency Shelter Administration, however, were extended and the organization was expanded to cover the whole country. At the end of 1945 the responsibility for the Emergency Shelter Administration was transferred from the Wartime Prices and Trade Board to the newly established Central Mortgage and Housing Corporation.

Shared Accommodation

Shared accommodation was defined as accommodation where the tenant lived in the same dwelling unit as the landlord and shared with him the entrance door and any other facility. Specific regulations relating to it were enacted in October, 1943. The accommodation might be let on a "per person" basis if bedding, linen, etc., were provided by the landlord. In this case the maximum rates were those in effect on July 1, 1943, but otherwise the ceiling was administered on the same basis as for housing accommodation.

Eviction control was extended to shared accommodation during 1944, and well-behaved tenants could be evicted only if the landlord desired the accommodation as an extension of his personal residence or as a residence in his immediate family. Six months' notice had to be given and tenants could not be required to vacate between September 30 and April 30. It was decided, however, not to extend eviction control to cover boarders who were entitled to take their meals with the landlord and his family and consequently live in much closer association with the household. The complete "freeze" of housing accommodation in the summer of 1945 did not apply to shared accommodation.

Rooming Accommodation

Rooming and boarding accommodation was not always covered under "shared accommodation" because on occasions the landlord did not live in the rooming house. This type of accommodation was very difficult to control because in congested areas, where there had been a large influx of population for war purposes the newcomer had to find some shelter and price became a secondary consideration. It was brought under specific and detailed control in September, 1942, in respect to designated congested areas. Local examiners were appointed with powers to fix maximum rents, and a card had to be displayed in each room showing the maximum rent.

Commercial Accommodation

Commercial accommodation was brought under rental and eviction control at the inception of the price ceiling on December 1, 1941. The basic

date was October 11, 1941; the grounds for applying for an increase in rent were similar to those originally introduced for housing accommodation, and notice to vacate could only be given for certain specific reasons and for a minimum of three months.

In the fall of 1943, the supply of commercial accommodation was considered to be sufficiently good that eviction control was no longer necessary. It was therefore withdrawn, but such an abnormal number of commercial tenants were then required to vacate their premises, to enter into long-term leases on onerous terms, or to purchase the property to avoid eviction that the Board restored control as of January 2, 1945.

Hotel Accommodation

The basic date for the maximum rates for hotel accommodation was also October 11, 1941. In the spring of 1945, certain somewhat tentative limitations were imposed on the accommodation of conventions by hotels as a means of curtailing travel. These restrictions on conventions were intensified in the summer of that year because of the increase in travel arising largely from the return of service personnel. The holding of organized meetings was prohibited in cases where more than fifty persons would need to use rail, bus, or air transportation for any part of their journey to the place of the meeting. In addition, hotels in Halifax, Montreal, Ottawa, Toronto, Hamilton and Vancouver, were prohibited from using more than 10 per cent of their accommodation on any one night for persons attending organized meetings.

OBTAINING PUBLIC COMPLIANCE

The urgent necessity of obtaining public compliance with the Board's regulations was obvious from the first, for any general breach of the price and rationing controls and the development of extensive black markets would have made enforcement impossible and the most carefully constructed set of regulations worthless.

Three aspects of the Board's work, therefore, had particular reference to obtaining public compliance. The first of these covered programs of information and education, planned to show the necessity for the regulations both in broad principle and in smaller detail. The second was the organization of the Board, for if the ceiling was to work effectively it was essential that problems be dealt with promptly. The third was the work of enforcing the Board's regulations, in the words of the Board's report, aimed at punishing "the small number of unscrupulous law-breakers" and checking the "careless and foolish".

Information and Education

In its endeavour to enlist public support both for the principle of the over-all price ceiling and for the individual measures necessary to carry it out, the Board considered that it had two main responsibilities: first, to conduct a campaign of popular economic education as to the dangers of inflation in a wartime economy; and second, to publicize its orders, for

it was clear that observance of these orders could not be expected unless their detailed provisions, their general purpose and their necessity were widely understood.

In carrying out these functions of education and information the Board used every agency of publicity at its command. We give below a short summary of some of the methods employed.

- (a) Press releases and frequent contacts with all sections of the press, including the provision of feature material.
- (b) Speeches and radio broadcasts by the Prime Minister and other Ministers, when the occasion warranted, and by the Chairman and other officers of the Board.
- (c) Newspaper advertisements, both of an educational and informative nature.
- (d) Radio time, including programs financed by the Board and also a service to radio editors and commentators giving current information about the Board's activities and problems.
- (e) Films both for theatrical distribution and for use on the rural and industrial film circuits.
- (f) Trade bulletins, containing information of special interest to particular trades.
- (g) Pamphlets.
- (h) Direct appeals to certain groups, such as women, farmers, labour, schools, management, etc.

Particular reference should be made to the co-operation of the women of Canada; very close contact was maintained with the women's organizations by a Consumer Branch which, like all the other informational activities of the Board, acted as a two-way means of communication, passing out to the women information concerning the part that they could play in maintaining price control and passing back to the Board the reactions and complaints of the women of Canada to the Board's regulations.

Because of the need for variety and to attract the attention of all sections of the community, techniques were adopted which at that time were radical departures from the orthodox methods of government publicity. For a number of years the Board sponsored a "soap opera" as a background for comments on the Board and its activities by a personage known as the "Household Counsellor". It employed a new cartoon technique in films and it illustrated its educational advertisements with humorous drawings.

To give an idea of the cost of these activities, between April 1, 1945 and March 31, 1946, the Board spent approximately \$946,000 on printing and stationery and \$1,170,000 on advertising.

Administrative Organization of the Board

The ultimate responsibility for all official actions of the Board lay collectively with the members of the actual Wartime Prices and Trade Board itself, all of whom were senior civil servants. The Wartime Prices

and Trade Board had the status of a government department and was represented by the Chairman or his appointee on all interdepartmental committees which concerned its activities. Close contact between the Prices Board and the Wartime Industries Control Board was assured by the provision that the Chairman of each Board should be ex-officio a member of the other Board.

In general, the organization consisted of three main sectors: Head Office, the Regional Offices, and the Administrations. Head Office was divided into a number of divisions, the most important of which were Prices, Supply, Distribution, Industrial, and Research, and the Information and Consumer Branches. The first three divisions were responsible for co-ordinating action in respect to problems of price, supply, and distribution, and for recommending any changes in administrative policy to the Chairman and to the Board. The Industrial Division dealt with labour requirements for consumers goods industries. The Research Division undertook all economic and statistical research necessary for the formulation and carrying out of the Board's policies and interpreted this research in relation to the Board's problems and policies. The Information Branch and the Consumer Branch engaged in the educational and informational activities described above.

The Administrations were, in the main, in charge of administering the Board's regulations in respect to a particular industry, trade, or service, although two Administrations—Ration and Enforcement—had more general functions. Certain Controllers of the Wartime Industries Control Board were appointed Administrators of the Wartime Prices and Trade Board, when the commodities they controlled had civilian as well as military importance. A number of Administrations which concerned related industries of different parts of the same industry were grouped together into Co-ordinations. At the end of 1945 there were 66 Administrations, 53 of which were grouped into four Co-ordinations. Throughout the period of the over-all price ceiling the Board had fourteen Regional Offices, with supervision over 120 Local or Sub-local Offices. The contacts of the Board throughout Canada were augmented by the Local Ration Boards and a variety of advisory committees. About 560 local ration boards were set up in cities and towns throughout Canada, with the mayor or reeve usually acting as chairman. The advisory committees fell into two main groups; industry and trade Advisory Committees attached to various Administrations and representing either producers or distributors; and the Women's Regional Advisory Committees located throughout the country and participating in the work of the Consumer Branch. Furthermore, associated with the Consumer Branch there were some 16,000 liaison officers from various women's organizations, about 1,600 labour liaison officers representing local trade union organizations and about 500 women representing rural associations.

To assist in carrying out the work of the Board and to act as its fiscal agents, four subsidiary companies were created: Commodity Prices Stabili-

zation Corporation Limited, Wartime Food Corporation Limited, Canadian Wool Board Limited and Wartime Salvage Limited. These companies were wholly owned by the Crown and were directly responsible to the Minister of Finance and the Wartime Prices and Trade Board.

The transition from the selective price controls of 1939-1941 to the over-all ceiling involved a substantial and most rapid increase in staff. In August, 1941, the total staff of the Board was about 150 and by March 31, 1945 it had reached 5,251, the bulk of that increase taking place between October, 1941, and March, 1942. At the end of 1945 the staff numbered 5,678, of whom 3,697 were attached to the Regional or Local Offices. As the Board Reports pointed out, many of the senior officials at Head Office and nearly all the administrators were loaned to the Board by private companies or organizations. Most of the administrators came from the industry which it was their duty in the Board to regulate.

Enforcement Policy

The Board took a lenient attitude towards offences during the first seven months of the ceiling. From December 1941 to the end of June 1942, 147 prosecutions were undertaken, and of these 100 were for rental violations, because a more serious view was taken of these violations in districts where rental control had been in force for some time. By the summer of 1942, a more positive enforcement policy was adopted. From July, 1942 to March, 1943, 1,679 prosecutions were undertaken, of which 547 related to prices, 730 to rentals and 253 to hoarding and rationing offences.

From the start it was recognized, to quote the first Report of the Prices Board, that

“there were, broadly speaking, two available methods of enforcing the price ceiling: the Board could employ an army of inspectors to watch continuously price changes throughout the country or it could rely primarily on co-operation from the trade and reports of evasion from consumers, using inspectors to follow up these reports and from time to time to investigate special situations.”

The Board decided to adopt the second of these methods, “for it economizes manpower and is more democratic”. A special appeal was made to the women of Canada to accept a major part of the responsibility of policing the price ceiling.

During the latter years of the ceiling certain organized groups engaged in black market operations and ration coupon frauds. There seems to have been little evidence of organized bootlegging by consumers, but it became apparent to the Board that “sources existed from which industrial users and quota users of sugar and butter could obtain these commodities without ration documents or increase their quotas by illicit acquisition of ration documents”. In the case of butter, the large number of producers created difficulties of control. With sugar, a careful check could be kept on the source of supply, but there were instances of coupons and other ration documents being forged and later, when the Board had made forging

more difficult, there were several instances of burglary of ration books and documents. Serious black market activities also developed in the textile field.

PART III: DECONTROL; 1945-1948

POLICY AND LEGISLATION

The first statement on decontrol policy was made by the Chairman of the Prices Board, in September, 1944. The turn of events at that time suggested that the war in Europe might terminate before the end of the year. It was therefore felt desirable that business men, and the public at large should know the line that would be followed within the general stabilization policy laid down by the government during the transitional period from war to peace. This statement was followed by others, in particular one by the Prime Minister on January 31, 1946. From these statements it appears that decontrol policy was based on the following points:

- (a) The price ceiling was designed to alleviate the danger of wartime inflation, and would be removed as soon as that danger had passed, thus permitting Canada to return to a free price economy.
- (b) The danger of inflation would not end with the cessation of hostilities, nor for some time thereafter, because the supply of civilian goods would take time to catch up with the demand and there would still be an abnormal strain on Canada's productive capacity to assist in the rehabilitation of war-torn countries.
- (c) Price controls on the basic period principle would be maintained until the danger of a drastic war-created inflation had passed. More flexibility in the controls, however, would be appropriate to encourage the reconversion of industry to civilian production. It was recognized that certain basic costs had increased and were still increasing, for example, labour and imports, and that a post-war price level higher than the basic period level was inescapable.
- (d) Steps would be taken to remove all subsidies paid by the Board; limited subsidies were invaluable during wartime in preventing certain rising costs from starting an inflationary spiral, but they nevertheless had the effect of disguising real cost-price relationships and consequently had no place in a move towards re-establishing a free price system.
- (e) The timing of various decontrol measures was most important, both in relation to the general economic position of the country and to the position of the particular commodity in question. In many basic agricultural products, for example, seasonal factors had to be taken into account.
- (f) Restrictions on the starting of new businesses and controls on production would be relaxed as quickly as possible consistent with the supply situations.

To implement this policy it was decided to introduce legislation rather than to rely on Orders-in-Council under the War Measures Act. Hence

the National Emergency Transitional Powers Act was passed towards the end of 1945, giving the Dominion government the authority for approximately twelve months to continue price, production, distribution and rental controls, and also certain other controls not connected with the Wartime Prices and Trade Board. At the next session of Parliament the Continuation of Transitional Measures Act gave the Board somewhat more restricted powers to continue price, supply, distribution and rentals controls. Under this Act, the government could neither increase nor amend the powers of the Board by Order-in-Council. The expiry date of the Act was extended in 1948, and now stands at March 31, 1949, unless in the meantime it is further extended.

DECONTROL MEASURES

New Business and Production Controls

What can perhaps be called the first tentative move towards decontrol took place as early as May, 1944, when the restrictions on the commencement of expansion of business enterprises were relaxed. The administration of restrictions on new businesses, moreover, had become much more difficult, particularly in view of the increasing number of ex-service men and ex-service women who were trying to rehabilitate themselves.

Revocation of certain supply controls took place in October, 1944, in respect to a number of regulations restricting the types of goods which might be manufactured from metals. The removal of these restrictions did not automatically increase the supply of civilian goods using metal, because both the materials and the necessary labour were under direct allocation control. In fact the military set-backs at the end of 1944, created a renewed shortage of metals. Further restrictive supply controls were removed early in 1945, and by V-E Day very few of them remained.

Price and Subsidy Decontrol, 1945-1946

During 1945 the Prices Board adopted a greater degree of flexibility in its attitude towards requests for price increases and in the pricing of new goods coming on the market. Essentiality of the article was no longer a necessary requirement for obtaining a price increase. The criterion of "financial need" was also relaxed. The Board was willing to consider not only the present financial position of the industry but also its prospective financial position during the post-war reconstruction period.

This new policy involved difficult problems. Many firms had been able during the war to continue to produce certain civilian items at the ceiling price because of the reduction in over-all costs created by war contracts. When these war orders were cancelled, the total output of the companies dropped and the unit cost of producing civilian goods consequently rose substantially. It was difficult to determine how quickly and to what extent they would be able to increase their output of civilian goods, and again reduce their unit overhead costs. Consideration had also to be given to the

effect of the reduction and elimination of certain war taxes, and the additional incentive given to business by the reduction in the excess profits tax.¹

When necessary the Board granted a price adjustment to a particular company in an industry, where the industry as a whole could not demonstrate that it required financial relief, but where the particular company could do so. Also, in special circumstances, it granted a price increase for a particular item which was being produced at a loss, even if the company's operations as a whole showed a profit. In certain cases it even granted an "incentive" price increase, that is, one that could not be justified by increased costs, for the purpose of encouraging the output of needed goods; building materials were a case in point. A further consideration in making price adjustments for certain goods, a large proportion of which are exported to the United States, for example, base metals, wood pulp, newsprint, etc., was the price then prevailing in the United States.

Modifications were introduced in the pricing of import goods from certain countries, such as the United Kingdom and France, which were striving to re-establish their exports and which had suffered substantial increased costs during the war. The general policy was to allow goods from these countries to be sold in Canada at the import price plus a limited mark-up, thus permitting greater importations.

The adoption of a more flexible policy on price increases was a step towards decontrol, for it brought the prices of the articles into a more realistic relationship to production costs and thus nearer to the point where the ceiling could be removed without a substantial increase. No actual decontrol of prices, however, took place until February 1, 1946, when the ceiling was suspended on a fairly long list of items. Few of these items were of great importance in daily living costs. At the same time wage controls were eased, and were finally removed near the end of the year.

In announcing this price decontrol measure the Prime Minister said that the ceiling was only suspended and not removed from these items. "Should widespread and unreasonable increases follow," he said, "should unprincipled speculators attempt, for selfish ends, to abuse this latitude, the whole policy will be reconsidered. Where necessary, in such cases ceilings will be reimposed". A year later the Board did reimpose price controls on goods which had previously been suspended from the ceiling.

Between February and July, 1946, further lists were issued enlarging the number of items on which the ceiling was suspended. In May, virtually all capital equipment used in industry and distribution was released from control. Early in July, a more positive method of decontrol was adopted by issuing a list of these goods still under control and automatically removing from the ceiling all others. While the number of items that had by then been released from the ceiling was large, price control still applied to almost all goods of every day importance, and to most of the principal

¹See Chapter 6, Fiscal and Monetary Policy.

items contributing to the production costs of industry, farmers and fishermen.

Another development in pricing policy, in early July, was the extension to practically all imports of the principle by which they could be priced at the laid-down cost plus a limited mark-up. This facilitated increased imports from the United States though these imports had, of course, to meet competition from domestically produced goods whose prices were more strictly controlled.

By the summer of 1946, certain economic events had occurred both in this country and abroad, which seriously interfered with reconversion and decontrol. The collapse of price control in the United States at the end of June, and the sharp increases which followed, seriously raised the cost of imports. Industrial disputes both in the United States and Canada, caused an acute steel shortage which gravely interfered with reconversion in the durable consumer goods industries and in other fields. Because of these developments the government declared its firm intention to hold Canadian prices,¹ postponed any further decontrol moves until January, 1947, and restored the Canadian dollar to parity with the United States dollar as a means of offsetting the rising cost of imports from the United States.

Some steps were also taken during 1945 and 1946 to reduce or remove subsidies. The commodities affected included petroleum, various textile fabrics, jams and jellies, canned goods, fertilizers and fluid milk. During the second half of the year, there was some reversal of this trend. Higher import prices necessitated higher subsidies for such important items as cotton, vegetable oils and coal. Because of the acute shortage of steel, special subsidies were paid to sustain output and conserve Canadian supply.

Price and Subsidy Decontrol, 1947

At the end of 1946, and early in 1947, a plan was drawn up which aimed at the decontrol of most goods and services by the fall of 1947, and the end of all controls with the probable exception of rentals, sugar, oils and fats, by March 31, 1948. It would appear that this plan was in part based on the expectation that the inflationary upsurge in the United States might reach its peak by the summer of 1947, and that during the autumn prices would be declining. This expectation was not realized for a number of reasons. Rehabilitation on the continent of Europe and in the United Kingdom was seriously set back by the poor harvest and dislocation of transport and industry caused by the severe winter of 1946-1947. The demand for food and other forms of assistance from these countries was therefore much larger than had been anticipated. The urgency of granting help was intensified by the marked deterioration in the European political situation.

The government also recognized that only the courts could determine the constitutionality of Dominion government controls over prices, supply,

¹Minister of Finance, House of Commons Debates, July 5, 1946.

distribution and rentals during the post-war.¹ It was therefore considered preferable to embark on gradual and orderly decontrol rather than to run the risk of the controls being suddenly cut off by judicial decision while in full operation.

Furthermore, the Prices Board was finding it increasingly difficult to retain a sufficient number of skilled and experienced people to administer the controls. Almost all of the senior officials who were on loan to the Board from private industry were recalled by their companies by the end of 1945 or early 1946. The difficulties of maintaining controls in the face of staff losses was first mentioned by the Prices Board in its Annual Report for 1944, and became progressively more serious. Reference was made to this matter by Mr. K. W. Taylor, Chairman of the Wartime Prices and Trade Board, in his testimony before us.

Another problem was the difficulty of obtaining public compliance with the regulations when the patriotic urge of wartime was no longer present. As the war receded further and further into the past, there was a noticeable decrease in public co-operation which was reflected in the growing number of infractions of the regulations. In part this was attributed to some confusion as to which goods remained under control. Evidence was presented that business was also less co-operative than during the war. As Mr. Taylor put it, in his testimony, the Prices Board was faced with very little active hostility to price control, but there was a feeling of irritation on the part of those who were still under control and who felt that they were being "picked on".² He stated that during the war the Board had received a very high degree of positive co-operation, which decreased as time went on.

Another problem in obtaining public compliance during the decontrol period was the fact that the Board could no longer engage in any educational activities. We quote from Mr. Taylor's testimony before us:

"Mr Dyde: Coming now to a more final aspect of my line of questioning I should like to ask if the termination of hostilities has affected the attitude of the Prices Board toward conducting information programs on a broad scale on the problems of inflation and price control?

Mr. Taylor: As the Commissioners will doubtless know, during the war the Wartime Prices and Trade Board conducted a pretty elaborate and extensive form of information service, public education and so on. It was a fairly costly operation. I do not recall the exact cost, but I think it ran in some years to as high as \$1,000,000 or more, for advertising, radio time, and a great variety of other activities. It became apparent shortly after the cessation of hostilities that there were very grave difficulties about a government department carrying on that sort of information service. The line

¹See Appraisal, Constitutional Issue, page 90.

²Evidence, Royal Commission on Prices, pp. 1968-9.

between information and propaganda is a very thin one and is drawn at different points by different people.

I recall that this whole question was raised, and quite sharply, in the House of Commons by persons in all sections of the House. Shortly after the cessation of hostilities it was laid down to us as a matter of government policy that we should withdraw from a very large part of this general public relations, propaganda or information service. Different people use their own terms to describe it. From that time on we as a Board have done very little in the way of public information except on a purely factual basis.

When items were decontrolled we would publish an advertisement showing the list of things decontrolled and the list of things remaining under control. When changes were made in the orders—we still issue a publication called "Food Bulletin", which goes to all the food trade, including all retail grocers in Canada—that information was passed along, but this has been strictly a factual summary of the existing orders.

Mr. Dyde: During the period of control would you say that the information program was a vital factor in obtaining public compliance with the regulations?

Mr. Taylor: I would say it was really indispensable. I do not see how you could otherwise get that measure of almost unanimous support for the general idea, and in particular, public compliance with what is inevitably and inescapably a complicated system. I do not see how that could be obtained without taking a great deal of time and trouble and going to a great deal of expense in keeping the people fully informed, not only as to the process and nature of the ceilings, regulations and mark-ups but also as to the reasons back of them.

Mr. Dyde: Then the lack of such an information program in peacetime or at the present time would seriously affect public compliance in any scheme of price control that might have to be imposed in these days?

Mr. Taylor: I do not think you could undertake anything but the very simplest form of regulation of this sort without spending a great deal of time and effort explaining why it is necessary or desirable and just how it operates. That would have to be carried through if you are going to get whole-hearted public compliance right through to the smallest sections of the trade and eventually right through to the individual consumer and housewife."

Finally, emphasis was placed on the tendency of the Courts to give light fines. As Mr. W. F. Spence, Enforcement Administrator of the Wartime Prices and Trade Board stated in his testimony before the Commission,¹ a small penalty was more harmful to the controls than a failure to prosecute,

¹Evidence, Royal Commission on Prices, p. 1976.

because it was merely an invitation, both to the person upon whom it was imposed and those who might be contemplating similar action, to transgress.

Figures for prosecutions on price infractions do not throw much light on the difficulty of obtaining public compliance in recent years, because naturally they declined as the number of controls in force diminished. Figures for rental prosecutions, however, give a better comparison because these regulations are still in force. It is, therefore, interesting to find that in the 12 months of 1946, 470 prosecutions were completed in respect to rentals offences while in the first 10 months of 1948, 908 such prosecutions were completed.

Following the policy outlined at the beginning of this section, that is, planning to decontrol almost all goods and services during 1947, five main decontrol moves took place during the year. In the January move, the list of items still controlled was substantially reduced, one of the more important deletions from the point of view of current living expenses being fresh fruits and vegetables with the exception of apples. A further long list of items was decontrolled on April 2, 1947, including wool and wool products, footwear, fuels, motor vehicles, certain durable goods, and plumbing and sanitary supplies. On June 9, ceilings were removed from a further list, dairy products being the most important items of direct interest to the consumer. Copper, lead, zinc and hardwood lumber were also decontrolled at this time and some additional items at the beginning of July.

A major decontrol move took place on September 15, 1947, when price ceilings were lifted on the majority of goods and services still remaining under control, including flour and bread, cotton, jute and sisal fibres and yarns, all remaining articles of clothing, household furnishings, hides, skins and leather, softwood lumber and farm machinery and equipment. Labour disputes in the packing industry caused the decontrol of meats to be postponed until October 22, on which date feed grains were also decontrolled. By the end of October 1947, the principal items remaining under control were sugar, molasses, dried raisins, currants and prunes, wheat, the principal oil bearing materials, (flaxseed, sunflower seed and rapeseed), the more important oils and fats except corn oil and olive oil, soaps, lard and shortening, primary iron and steel products, tin, and alloys containing more than 95 per cent tin. Manufacturing processes performed on a custom or commission basis in connection with goods still under price control, and custom or commission packing charges on such goods, were left under control. Dried fruits were released from control on December 31, 1947, and oils and fats, soaps, shortening and lard, on August 1, 1948.

In all cases, subsidies were removed before the subsidized item was decontrolled. In some instances the removal of the subsidy took place in two or three steps, an appropriate price increase being permitted at each step until final decontrol was reached. In removing price control on goods that had been subsidized, the Board tried to limit the extent to which subsidies on goods still held in stock would contribute to inventory profits

resulting from higher prices following decontrol. This was done in one of two ways. In some cases the decontrol was staggered, that is, there was a time lag between the reduction of the subsidy and the consequent price increases at another stage. Mr. Taylor quoted the textiles field as an example. When the subsidies on raw cotton were reduced the Board did not allow price increases at the fabric stage until some time later, and increases in the prices of final garments were not permitted until later still. In other cases, generally when the bulk of the goods were still in the hands of that section of the trade which had received the subsidy, the Board took direct steps to recover the subsidy content of the goods in stock.¹

When goods were removed from the price ceiling the regulations still required that they should not be sold at a price higher than was "reasonable and just". The Board has undertaken certain prosecutions pursuant to this clause, but with limited success. Mr. W. F. Spence, Enforcement Administrator of the Wartime Prices and Trade Board, discussed this point in his testimony before us.² He said that in 1948 the Board had issued seven leaves to prosecute on charges with respect to foods and seven with respect to construction products, chiefly nails. One food and four nail cases resulted in conviction (with an appeal pending on one of the nail cases); three food and one nail case in acquittal; two food cases were withdrawn. In general, Mr. Spence and Mr. Taylor left us with the impression that prosecution on the basis that a price is "higher than is reasonable and just" has not been entirely successful.

Removal of Distribution, Rationing, Licensing and Export Controls

In general, distribution and related controls were removed *pari passu* with price controls. The first step in easing the policy of equitable distribution was in the fall of 1945, when certain goods were exempted and in respect to a long list of other goods the policy was made applicable to only 80 per cent of the distributor's supplies, freedom of distribution being allowed to him for the remaining 20 per cent. In January 1947, a considerable number of additional goods were exempted, and all other goods were placed in the category where the policy applied only to 80 per cent. As goods were removed from the price ceiling they were automatically removed from the equitable distribution policy, but when ceilings were reimposed on canned fruits, vegetables and canned citrus juices in the fall of 1947 equitable distribution requirements were also reimposed.

Direct controls on distribution were relaxed and removed during 1946 and 1947. In 1946 the priority system for the distribution of canned goods was terminated in most cases, and canned fruits were released from rationing. The rationing of meat was terminated in March, 1947, though meatless days were continued for some months longer. Butter rationing and the priority system for the distribution of evaporated milk ended in

¹Evidence, Royal Commission on Prices, p. 1970.

²Ibid., p. 1975.

June. The rationing of sugar was progressively relaxed during 1947 both by an increase in the amount of the sugar allowance and by the removal of various preserves from the list of rationed items. It was finally terminated in November, 1947.

Licenses for new businesses were in general granted quite freely from 1944 onwards, as has been mentioned earlier. In April, 1947, the licensing regulations were substantially relaxed, and from then on licenses were required only by those dealing in goods and services still subject to price control, by businesses using sugar quotas and by all coke and coal dealers. In November, 1947, all licensing regulations were withdrawn with the exception of those affecting fuel dealers.

Export controls were withdrawn on a number of items during 1946 and 1947, and by the end of the latter year applied mainly to certain agricultural and lumber products. Export restrictions on livestock and meats were removed in September, 1948.

Rental and Eviction Decontrol

Decontrol of rentals and eviction followed somewhat different courses in regard to commercial accommodation on the one hand and housing accommodation on the other. The former, as has been intimated, was in relatively better supply than the latter; furthermore, with the ceiling removed on the prices of all but a few goods and services there was considered to be little justification for continued rental control on commercial buildings. Housing accommodation, however, continued to be in short supply in spite of the substantial volume of new construction, and the government came to the conclusion that a general decontrol of either rents or eviction would cause much social distress.

Commercial accommodation was completely decontrolled by March, 1948. In contrast, in January, 1949, most tenants of housing accommodation still enjoy security of tenure at rents which, though somewhat increased, are still under ceiling. Nevertheless, the government took an important step towards the eventual decontrol of housing accommodation when in November, 1948, it decided that property then vacant or as it later became vacant would be free of rental and eviction control. This means that, as tenants for one reason or another vacate their present accommodation, a continually growing number of housing units will be decontrolled. It also means that a tenant can only continue to enjoy the protection of rental and eviction control by living in the dwelling that he now occupies; if he moves to another dwelling, that dwelling, by virtue of the very fact that it is available for him to move into it, is automatically decontrolled. Let us examine this decontrol program in detail.

Housing Accommodation

The first provision for a general increase in rentals was introduced in April, 1947. A landlord was permitted to charge a 10 per cent increase on renewal of the lease if he offered the tenant a two year lease which was

binding for the full term on the landlord but which could be terminated by the tenant at any time upon 30 days' notice. If the tenant did not accept this offer, his existing lease would terminate and he could be evicted as provided for under provincial law. The accommodation would remain under rent control for the new tenant but at 10 per cent increased rate. This 10 per cent rental increase did not apply to housing accommodation newly built or converted after January 1, 1944, since the maximum rentals on such buildings were fixed on a basis to yield a fair return on prevailing costs of land, labour and materials. Special provisions allowed a further 10 per cent increase if the tenant was sub-letting three or more rooms under more than one sub-lease and if no increase had already been granted on those grounds. The basis for granting an increase on the grounds that the current rent was lower than prevailing rate, which had been re-introduced earlier for apartments, was broadened.

In March, 1947, steps were taken to give some relief to landlords who were suffering hardship under the total "freeze" of leases. The first to receive consideration were those who had purchased houses between March 31, 1944, and July 25, 1945, the date on which the "freeze" became effective. Landlords who had purchased houses prior to March 31, 1944, had been in a positive to give six months' notice which became effective before the "freeze", and those who purchased houses after July 24, 1945, did so in full knowledge of the "freeze". Purchasers between these two dates, however, had acted in the belief that they could dispossess the tenant on six months' notice if they themselves wished to occupy the premises; they had then been prevented from so doing by the order.

In March, 1947, provision was made to permit landlords of housing accommodation purchased between these dates to apply for permission to recover such accommodation. The application was to be made before a Court of Rental Appeal, which in making its decision was instructed to take into account the relative needs of the landlord and the tenant for the accommodation. In August, 1947, this principle was extended to permit any landlord who had become the owner of his accommodation before January 1, 1947, to apply for recovery of his premises for his own use, and Commissioners were appointed at numerous centres throughout Canada to hear these applications.

In October, 1948, there was a further relaxation. All landlords who had owned their premises prior to November, 1947, if they needed the accommodation as a home for themselves were permitted to dispossess their tenants according to provincial law, but with a minimum of six months' notice. At the time, all other landlords were permitted to apply to the Commissioners for the right to dispossess their tenants on the grounds that their needs were greater.

In June, 1947, rental and eviction control was lifted on all new houses, apartments and other self-contained buildings completed on or after June 1, 1947, to encourage the construction of new housing for rental. In

October 1948, a landlord was permitted to charge a 10 per cent increase in rent at the termination of the current lease if the maximum rental did not already reflect a 10 per cent increase under the 1947 Order. In addition, any landlord who provided heating might increase the rent by five per cent. Under the same Order, all housing accommodation untenanted at November 1, 1948, or becoming untenanted thereafter was freed of rental and eviction control.

Commercial Accommodation

The first steps towards the decontrol of commercial rentals were taken at the end of 1945. Provision was made that if the landlord and tenant were both willing to enter into a five year lease, the rent could be fixed at any level agreeable to both parties. At the same time, a list was established of a number of situations which might be the basis for an application on the part of the landlord to dispossess the tenant, such applications being heard by the regional Deputy Administrators. Some of these situations were: when the landlord would make better use of the land; when another occupant would provide substantially more employment of a permanent character; where suitable alternative accommodation was available for the tenant; where the landlord was a hospital or charitable institution requiring the accommodation for its own purposes; or if the landlord or his son wished to re-establish a business which was interrupted by wartime conditions.

In March, 1947, landlords of commercial accommodation were permitted a 25 per cent rent increase if they were willing to give a two year extension of the lease, the extension being binding on the landlord for the full term but terminable by the tenant on 30 days' notice. If the tenant was not willing to accept the two year lease he could be dispossessed under provincial law, and the property then became free of rent and eviction control. At the same time, all commercial accommodation which was untenanted on March 1, or later became untenanted, was released from rental and eviction controls, as also was property in respect of which the landlord and the tenant agreed on a three year lease.

In June 1947, rental and eviction controls were lifted on certain types of commercial accommodation, including gasoline service stations let by the refineries or distributors, automobile parking or sales lots, meeting halls and motion picture theatres. It was then announced that complete decontrol of all commercial accommodation would become effective on March 8, 1948.

Shared Accommodation, Boarding and Rooming Houses

Regular boarding houses, that is those serving two meals a day, were released from rental and eviction control in October, 1947. In January 1949, rooming houses and other shared accommodation are still under control.

Hotels

Restrictions on the accommodation of conventions by hotels were terminated in November, 1945. Resort hotels and boarding houses were decontrolled in March, 1947, and all other hotels a month later.

Re-imposition of Certain Controls, 1947-1948

In November, 1947, the plans of decontrol were again modified. General inflationary forces in Canada continued to be strong, both from the internal pressures of high purchasing power and the external pressures of high import and export prices. The introduction of import restrictions to conserve United States dollars created new problems. Certain sections of the trade took advantage of this intensified shortage of supply to push prices up beyond the point considered by the government to be justified by increased costs. The government had repeatedly emphasized, when removing ceilings, that it retained the power to replace them if unjustified price increases should occur. Consequently in November, 1947, the Prices Board re-imposed ceilings on the more important canned fruits and vegetables, as well as on carrots, and instituted mark-up control on canned citrus fruit juices and on imported citrus fruits, grapes and cabbages. All of these commodities had been affected by the import restrictions.

In 1948 price ceilings were re-imposed on three commodities where the increase could not be attributed to the prohibition of imports. In January, 1948, the ceiling was re-imposed on butter. In February, 1948, the price of certain fertilizers and fertilizer materials was rolled back. In the summer of 1948 when the contract price of wheat was raised from \$1.55 to \$2.00, a subsidy was paid to cover the increase with a view to stabilizing bread and flour prices. Bread prices did rise in some areas however, and in August, 1948, a ceiling was re-imposed on both bread and flour. In the autumn of 1948, when import restrictions were removed or relaxed on certain fresh fruits and vegetables, these items, when imported, were automatically placed under mark-up control.

The effect of these re-impositions of ceilings was to give Canada during the latter part of 1947 and in 1948 a measure of selective price control.

PART IV: APPRAISAL

GENERAL

Looking back at the war period, we are impressed by the remarkable stability of consumers' prices. There can be little doubt that this degree of stability would not have been achieved without the timely introduction of the over-all price ceiling late in 1941 and what we believe to have been the efficient, determined and imaginative way in which it was administered. But we do not believe that the price ceiling by itself could have held prices from rising. A price ceiling is like a lid on a boiling pot. It can be held down only if the pressures within the pot do not become excessive.

Therefore, although for reasons which we give elsewhere, it would have been impractical to use fiscal and monetary measures with sufficient rigour to prevent prices from rising under the conditions that existed in Canada in wartime, they were an indispensable part of the stabilization program. High rates of individual taxation helped to keep consumer spending down to manageable proportions. Taxes on corporations, particularly the excess profits tax, took much of the profit out of war. They helped to reduce the pressures from labour for a larger share in the gains and from Canadians generally for relief in individual income tax.

Although wages were never held under a rigid ceiling, a substantial degree of wage and salary control was maintained and seems to have been indispensable.¹ It is significant in this connection that except on rare occasions, wage increases were not recognized during the period of the over-all ceiling as justification for the payment of subsidies or for price increases. Export controls, import subsidies, and foreign exchange control too, were indispensable. Without them a sufficient supply of essential goods could not have been kept in Canada, and rising prices for imports would soon have made the domestic ceiling unworkable. Even so, if it had not been for the timely control of prices in the United States early in 1942, we think it would have been exceedingly difficult, if not impossible, to have held the line in Canada. It should not be overlooked too, that although the over-all ceiling was maintained more or less intact at the retail level for some four years, there was, in fact, a considerable increase during that time in returns to Canadian producers, made possible by the payment of domestic subsidies on a large and rising scale.

Over and above all else, we are convinced that the lid was kept on largely because the people of Canada were determined to keep it on. Persuaded by a skilful and extensive publicity campaign, they held themselves and each other in check. The retention of the price ceiling became an integral part of the war effort, or as one witness put it "the public support of price controls was a patriotic duty".²

There may be some argument as to whether or not an over-all price ceiling was the right policy or whether it would not have been better to have permitted somewhat greater flexibility. It is possible that a less rigid policy might have made post-war adjustments less difficult. But this is arguing after the fact. In 1941, we were engaged in an all-out war effort and it was prudent public policy to anticipate the worst, and to prepare for it. Nonetheless, the very success of the over-all price ceiling did add to the post-war difficulties of restoring the free market system.

We considered whether or not, in view of the rapid rise in prices following decontrol, the wartime price ceiling should have been continued longer. Because of the representations and evidence of groups speaking for a significant proportion of our people requesting a re-imposition of controls and their belief that there should not have been decontrol at all, it consti-

¹See Chapter 7, Prices and Wages.

²Evidence, Royal Commission on Prices, p. 1974.

tuted a most pressing matter for our examination, and was one of the most difficult questions for us to answer.

We are aware, of course, that the validity of federal price controls in peace time is in question and that however desirous the Federal government may or may not have been to continue them its authority to do so is open to challenge in the courts. This question is considered at length in the last part of this section. Apart from this, however, it seems to us that the vital issue was whether it would have been in the general interest to attempt to hold to a price line that could only have been held by a degree of government intervention without parallel either in war or peace.

To have held prices at the 1941 level, would not have meant merely a continuation of the kind of intervention that had been necessary to hold the price ceiling in wartime. For, while the ceiling held prices down below the levels which would have prevailed under open market conditions in wartime, it must be remembered that Canadian prices in fact never diverged very far from United States prices which were also under control and there was a reasonably close relationship between internal costs and prices. At the end of the war, however, both import and export prices and internal costs began to move upwards and away from the Canadian wartime ceiling level. We have the testimony of Mr. K. W. Taylor that:

“ . . . even if the price ceiling policy had been continued in full effect there would almost certainly have been a very considerable rise in prices. To have held the old ceilings in the face of increases in both domestic and import costs would have involved enormous increases in total subsidy payments and at the same time could not have avoided hampering and restrictive effects on production.”¹

To put it bluntly, the continuation of the wartime price ceiling into the post-war period would have fixed on the country a structure and level of prices quite remote from reality which could only have been maintained by the most detailed and elaborate kind of government planning and direction. At one time there might have been reason to hope that as war-created shortages disappeared, demand and supply would come into balance at price levels not far above or even at, or below, ceiling prices. But events turned out otherwise.

We find ourselves in agreement with the decision not to continue and augment the wartime controls. We are satisfied that the preservation of 1941 prices far into the post-war period under totally different domestic and world conditions would have been not only impractical, but economically highly undesirable.

Could another ceiling have been established and held at a somewhat higher level? We have considered this possibility and it seems to us that there would have been one well-nigh insuperable obstacle. That obstacle would have been the establishment of a new over-all ceiling in the immediate post-war period before prices had settled down to an equilibrium level.

¹Evidence, Special Committee on Prices, p. 60.

The 1941 price ceiling adopted a relationship in the pricing system which had been established in the market. In a period of inflation the process of adjustment of prices and costs is rough and its continuity is marked by uneven pushes and pulls. The actual setting of every price in the economy is the more difficult in a period of inflationary unbalance because in price setting it is first necessary to determine an economic balance of every factor by artificial means rather than by the normal process of adjustment of supply and demand.

To have re-imposed the ceilings after the war would have involved the re-fixing of prices at every step of production and distribution at a level so unrelated to the realities of the economy that their use in the post-war period would have been wholly impracticable and undesirable. Moreover, in a peace-time economy there could be no discrimination in price setting between essential goods and luxury goods, or essential services and luxury services. Also every wage and every salary would have to be set and controlled. Perhaps these measures could have been adopted to the satisfaction of both consumers and producers, but we very much doubt it. In any case, unless the new ceiling had been fixed at levels reasonably close to levels which would have been established on the open market, the degree of government intervention might not have been much less than if the original ceiling had been retained.

We considered also the serious administrative difficulties in operating over-all price controls in peacetime. Briefly these are:

- (a) An over-all price ceiling produces a large number of extremely complex problems. If the system is to function, these problems must be solved quickly, fairly, and efficiently. This implies a fairly large and extremely competent staff of experienced officials. During war-time such a staff was obtained largely by borrowing senior officials from industry and trade, because personnel with the necessary experience could not be obtained elsewhere. In peace-time conditions private companies could not be expected to continue lending their top officials to the government and the government could not attract these men to its service permanently unless it could offer permanent employment and could pay salaries on a scale much higher than those now being paid. Without a competent staff, inefficiencies of administration are inevitable.
- (b) Continued acceptance of controls by the trade and by the general public could not be expected without an extensive educational campaign explaining both the need for the controls and the details of the regulations. As Mr. Taylor said in his testimony before us, such a campaign is "really indispensable" in obtaining public compliance. It does, however, cost a lot of money, and in peacetime might well be identified with political propaganda.
- (c) Experience since the war has shown in many instances, an unwillingness on the part of the courts to impose on those who break the regulations a penalty sufficiently large to deter would-be offenders.

Whether or not the actual process of decontrol followed was in every respect the best under the circumstances is a matter of judgment. In our opinion it was wise to move gradually rather than to remove all controls at once, both to lessen the shock of adjustment and with the hope that demand and supply might come into better balance before the process was complete. There undoubtedly was a point, however, beyond which the retention of particular controls over prices on the 1941 base while other prices were free would have produced serious inequities and distortions.

Two controls related to, although above the 1941 ceiling, are still in effect,¹ namely, those on house rents and sugar, and a few have been reimposed in the post-war period of which the ceilings on bread, flour and butter and mark-up controls on certain imported fruits and vegetables, are the most important. A consumers' subsidy is also being paid on flour. This led us to make inquiries as to the practicability of some form of selective price control rather than over-all price control during the post-war period. We asked Mr. Taylor for his comments and reproduce below a few excerpts from the evidence:

"Mr. Taylor: When you get beyond these industries or types of industries which are either public utilities or somewhat analogous to public utilities, the problem of selective price control becomes extremely difficult and complicated. There is the whole question of costs. Costs vary a great deal between different producers and the different sections of the country. Particularly when you get into non-standardized commodities there is the question of quality, grading and definition, and the question of markets.

Mr. Dyde: . . . There are, however, at the present time such selective controls. How are these various difficulties handled in such selective controls? For instance take the case of rising costs.

Mr. Taylor: The problem is less difficult if it is generally assumed that you are either on the way in or on the way out. In other words, if it is regarded by the industries concerned as a temporary situation. We have these selective controls now, and the difficulties are very real, and there is a certain degree of unrest in the controlled industries. They feel that they have been discriminated against; but the very fact that they had to assume that this is a temporary situation means that the problems are not insoluble. We do somehow work our way through them.

There are costs which are rising, the uncontrolled costs, and there is bound to come a point, if these costs continue to rise, when we either have to revise our views on the particular price ceiling in question or extend the controls into these cost elements.

Mr. Dyde: Do you find from your recent experience that there is any considerable degree of complaint from these controlled industries on these items, for instance, such as being discriminated against or squeezed on mounting costs?

¹Autumn, 1948.

Mr. Taylor: Oh yes. I have had meetings in the last few months with the baking industry, where they have been very vocal on the point of discrimination on the one hand and the uncontrolled costs in certain parts of the operations on the other. They feel that they have, so to speak, been picked on, and they do not like it. They are not actively hostile but they certainly have a sense of grievance that they have been selected for these particular controls."

As we see it, selective price control may be justified under exceptional circumstances for a temporary period. It may, for example, be justified by a temporary restriction of imports for exchange conservation purposes which, if allowed to affect prices, might result simply in a fortuitous profit to domestic producers and, if some imports are permitted to importers. Selective price control, combined with subsidies, may also be justified as a means of slowing down the wage-price spiral, on the assumption that the rise in the cost of living is temporary and will soon be replaced by a decline. In specific cases of acute shortages of important commodities direct controls may be necessary to ensure that the scarce supplies are directed to where they will best serve the national interest.

Except under such circumstances it is doubtful, however, if selective price control has much to commend it in ordinary time. It is bound to be discriminatory. It is extremely difficult and complicated to administer. Most important of all, and particularly if subsidies are paid on the controlled goods, selective controls are more likely to augment the inflationary gap between demand and supply than to reduce it. If a general attack on inflation is to be made, the weapons should, in the main, also be general, directed to bringing the flow of money available for expenditure into equilibrium with the supply of goods and services available for purchases.

CONSTITUTIONAL AUTHORITY OF THE PARLIAMENT OF CANADA
TO ESTABLISH AND MAINTAIN PRICE CONTROLS

The courts have recognized the constitutional authority of the Parliament of Canada to enact laws for price control during time of war and the transition period from war to peace. We are here concerned with the question "Has the Canadian Parliament authority to continue price control measures indefinitely or to enact new laws of this kind in peace-time conditions?" We believed it would be useful to make a statement of the various views and opinions held as to the extent of the authority of Parliament in this matter and to set them out in order to examine this problem.

In order to clarify the discussion it should be noted that legislation affecting prices may operate to produce different effects, and may be for different purposes and of different scope. Our consideration will be confined to legislation of one type; that controlling prices by means of a general over-all ceiling, similar to that imposed during the recent war for the purpose of minimizing inflationary conditions in the economy.

The practical operation of such legislation renders it necessary to control all matters that affect the consumers' price, such controls to operate at the importer's, manufacturer's, wholesaler's and retailer's level. For example, to maintain control over the price of men's shirts would require, among other things, steps to ensure the importation of raw cotton or fabric at related prices, control over manufacturing costs and selling prices, and regulation of wholesaler's and retailer's mark-ups. In general, a price control program must regulate terms of the contracts into which businessmen enter for the acquisition or disposition of property and the control or use to which they may put the property while it belongs to them. The contracts may relate to transactions begun and completed wholly inside one province, or to interprovincial or to international transactions. The problem is, has Parliament the authority, under the Canadian constitution, to make laws to govern all these activities in peace time?

We have been informed that the crux of the matter lies in the division of legislative powers between the Parliament of Canada and the legislatures of the provinces which is set out in sections 91 and 92 of the British North America Act. The Canadian Parliament by section 91 has exclusive authority to enact measures concerning certain specific subjects together with a general power "to make laws for the peace, order, and good government of Canada, in relation to all matters not coming within the classes of subjects by this Act assigned to the legislatures of the Provinces." The provincial legislatures, by section 92 are exclusively empowered to legislate for specified matters, the most important of which is "Property and Civil Rights in the Province".

The matters mentioned in these sections are matters for the purpose of dealing with what laws may be made. They are in the nature of legislative targets. For example, the assignment of the heading "Property and Civil Rights in the Province" to the provinces does not mean that all laws that in fact deal with property and civil rights are legislation on property and civil rights to be enacted by the province. To be so, they must be laws for the purpose of dealing with property and civil rights in the province as such. Regard must, therefore, be had for the essential purpose of a law in order to classify it within sections 91 or 92 and not merely to the form of what it deals with incidentally in providing for the main purpose.

Under what power, then, can the Parliament of Canada enact price control legislation in peace time?

First, let us consider the specific subjects assigned to Parliament. These may be grouped into three categories for the purposes of this discussion:

1. Criminal law.
2. Regulation of Trade and Commerce.
3. All other matters.

Criminal laws are designed to prevent certain acts or activities. The elimination of such acts or activities is the whole purpose of the legislation. It is apparent that the extensive regulation required in price control cannot be founded on criminal law since offences created to deal with infractions of the regulations are not ends in themselves but only incidental to the regulation which is the true object of the legislation.

Decisions of the Privy Council have established that the subject "The Regulation of Trade and Commerce" is to be interpreted as meaning trade and commerce from a national point of view. For example legislation regarding import, export, or interprovincial transactions may be based on this power. However, it does not include authority to regulate a particular trade or industry in matters carried on within a province. Where a law is for the purpose of regulating the activities of a particular trade or industry in a province it has been considered to be for the purpose of dealing with the use of property or the exercise of civil rights in the province. The Privy Council has stated that "The Regulation of Trade and Commerce" perhaps includes general regulations of trade affecting the whole Dominion but no decision with respect to legislation of the kind under consideration here has, as yet, been based on this view.

As this latter question is akin to that arising under the general power of Parliament, it is not further considered here, and much of the discussion below in relation to the general power is applicable to the subject "The Regulation of Trade and Commerce".

The remaining specific matters under parliamentary authority could be used for purely financial legislation, complementing price control, but it would not appear that they could be used for legislation controlling transactions relating to ordinary commercial commodities within a province.

From the foregoing it is clear, subject to what is said later concerning "Trade and Commerce", that laws for price control do not as a whole fall into any of the specific purposes mentioned in the British North America Act for which Parliament may legislate. Parts of such a program might be enacted, such as the financial measures complementary to price control, but no authority exists in these subjects for legislation controlling the use of property or of contracts relating to matters wholly within a province for this purpose.

Finally, we must consider the general power of Parliament "to make laws for the peace, order and good government of Canada in relation to all matters not coming within the classes of subjects by this Act assigned to the legislatures of the provinces" together with the exclusive authority of the provincial legislatures to make laws under the subject "Property and Civil Rights". It is here that obscurity exists. Price control laws might be deemed to be made under either of these authorities. It is not clear which is the case and the courts would have to rule on this question. We have been informed that arguments can be advanced on both sides of this matter and it would be helpful to consider previous decisions of the

Privy Council which have related to the general power of Parliament and the provincial authority to make laws relating to property and civil rights.

The Privy Council has stated that Parliament has authority to enact laws affecting property and civil rights if this is merely the incidental form of the legislation and the true purpose is to deal with some other problem which is inherently national. Subsequent to this decision, first made clear in 1896,¹ further judgments of the Privy Council gave rise to the "emergency theory", which emphasized that in order for laws enacted by Parliament under the general power to be valid, they must be as a result of some exceptional circumstances affecting the welfare of Canada as a whole. During and shortly after World War I, this emphasis was expressed by referring to a time of emergency, such as war and the transition from war to peace, during which the national life may require, for its preservation, the employment of very exceptional means which may well over-ride "property and civil rights in a province". This emphasis led to the belief that the authority of Parliament to make laws "for the peace, order, and good government of Canada", was confined to times of national emergency and in the period of transition from emergency to normal conditions.

In 1946, however, a decision of the Privy Council indicated that the "emergency theory" was too restrictive and that a time of emergency was only one instance that gives rise to the authority of Parliament under the general powers, while there may be others. On this occasion, the Privy Council stated:

"the true test must be found in the real subject matter of the legislation; if it is such that it goes beyond local or provincial concern of interests and must from its inherent nature be the concern of the Dominion as a whole, then it will fall within the competence of the Dominion Parliament as a matter affecting the peace, order, and good government of Canada".

The general power of Parliament is, therefore, to make laws for the purpose of dealing with intrinsically national matters.

On the other hand, the authority of the legislatures of the provinces is to make laws for the purpose of dealing with "Property and Civil Rights in the Province", as such.

Into which of these categories do laws for the purpose of establishing price control to maintain a general over-all price ceiling or to maintain control of prices of key commodities with the object of minimizing inflationary conditions in the economy, as a whole, fall?

Arguments can be advanced for the validity of legislation enacted by Parliament for the control of prices as part of a post-war anti-inflationary program. These arguments can be advanced on two possible lines.

In the first place it can be said that the exceptional conditions which during the war gave price control an inherently national character continue to exist in post-war conditions. The disruption of world trade, foreign ex-

¹Attorney-General for Ontario v. Canada Temperance Federation, 1946 A.C. 205-208.

change difficulties, and the procurement policies deemed necessary to render aid to exhausted countries bring about the same conditions in Canada as a whole that existed during the war. This argument may be put two ways, either that the exceptional circumstances during the war have continued into the post-war or that post-war conditions give rise to the same exceptional circumstances.

In the second place, it can be argued that in any event price control legislation as part of an anti-inflationary program relates to a matter of predominantly national concern. It is said "inflation" is a condition that, from its very nature, relates to the national economy as a whole. Further, it is argued that inflation is a subject that is similar to the matters that are specifically mentioned in section 91 as being applicable to Federal jurisdiction such as banking, currency, trade and commerce, and so forth. Again, the stresses on the economy producing inflationary conditions affect the economy as a whole and price control legislation is essentially one program to meet these stresses. It is said that legislation having for its effect and purpose the regulation of the Canadian economy as a whole and not related to particular persons or trades is legislation for the peace, order and good government of Canada and not a mere regulation of property and civil rights in the provinces. It is said that such legislation is outside any of the powers of the provinces in section 92 since no province is empowered to legislate with a view to regulating the Canadian economic system as a whole.

Finally, it is said that laws of the type now under consideration have not yet been before the courts in time of peace and that such decisions as have been rendered on laws providing for price control have involved legislation of a different character. It is said that they are not applicable.

The foregoing arguments can be advanced to justify legislation by Parliament either under the general power in section 91 or under its power in relation to "The Regulation of Trade and Commerce". As mentioned previously, the latter apparently includes power to enact legislation for a general regulation of Trade and Commerce although not for a particular trade or industry. It is argued that legislation applying generally to all trade and commerce or even to key commodities because of the general effect on the trade and commerce of the country as a whole, is justified under this head.

For these reasons, it is argued that legislation designed to produce stability in the Canadian economic system, as a whole, even though it provides for the control of transactions affecting property or civil rights wholly within a province is not directed or aimed at "property and civil rights in a province". It merely affects, in a subsidiary and purely incidental way, property or civil rights, while aiming to regulate a matter which is intrinsically national in character.

On the other hand, we are informed that the following arguments can be advanced against the competence of Parliament in this matter. Laws

for price control deal with local trade and transactions wholly within a province. It is said that the purpose is to this extent to regulate this trade and these transactions, that is to say to regulate the use of the property and the exercise of the civil rights in the province. It is said that there is nothing inherently national in this part of price control legislation in ordinary times and that there are no exceptional circumstances arising out of post-war conditions that justify the continuation of price control by Parliament beyond the reasonable period that was necessary for transition from wartime conditions to non-wartime conditions. It is held that the normal relations of the legislative authorities of Parliament and the provincial legislatures have been restored.

Moreover, there are a considerable number of decisions of the Privy Council, indicating that before a matter can be deemed to be predominantly national the matter must quite clearly have this characteristic.

In several cases for instance legislation by Parliament providing for the regulation of the insurance business in Canada as a whole was held beyond the powers of Parliament. In those cases it was argued that insurance was a business that was inherently national in character but the Privy Council said that Parliament did not hold this authority to undertake the regulation of insurance contracts wholly within a province. Parliament, it was decided, could not regulate a trade or business in a province,

A similar view was taken of arguments advanced to support a general regulation of the grain trade by legislation enacted by Parliament. It was held that the grain trade was not so predominantly national as to justify Parliament legislating with regard to every aspect of it. It was further held that Parliament could not enact laws for the regulation of industrial disputes and strikes in all employments in Canada. In that case it was held that local disputes wholly within a province were matters of property and civil rights and Parliament, under the general power, was not authorized to legislate for the regulation of trade disputes of a local character together with those of national concern under the power of section 91. Parliament was held, also, not to have authority to enact a general Unemployment Insurance Act in 1935, even though this statute was enacted during a period of great unemployment throughout the whole of Canada. This problem was solved only by an amendment to the British North America Act.

In all of these cases it was indicated that the problems were not of such a national character as to authorize Parliament to deal with property or civil rights in the province in providing for them. The necessity of either exceptional circumstances, or of over-riding national characteristics, or both, was continually emphasized.

From our general discussion of the legislative powers of Parliament, it is clear that laws to be enacted under the general power "to make laws for the peace, order, and good government of Canada", or under the

specific power "The Regulation of Trade and Commerce" which will not conflict with the power of the provincial legislatures to legislate for the subject "Property and civil rights within a province", must be of an inherently national character. This national characteristic may or may not be the result of exceptional circumstances which affect Canada as a whole. It is not at all clear, from our consideration of price control laws, whether such legislation meets the criteria mentioned above. Forceful arguments can be made on both sides and we conclude that the situation is very obscure. In the final analysis, a definitive answer to this question can be given only by the courts. This obscurity of jurisdiction is one of the most important problems a program of price control in peacetime would face.

EXTERNAL INFLUENCES ON THE CANADIAN PRICE LEVEL

THAT there is a connection between Canadian and foreign price levels is obvious enough. What we have tried to establish is the closeness of the connection and to what extent it is a necessary connection. This chapter is therefore concerned with the answers to two questions:

1. To what extent have Canadian price trends followed or deviated from price trends in other countries, particularly the United States, and for what reasons?
2. Under what conditions can Canadian prices be held down while prices in the United States and elsewhere are rising?

THE STATISTICAL PROBLEM

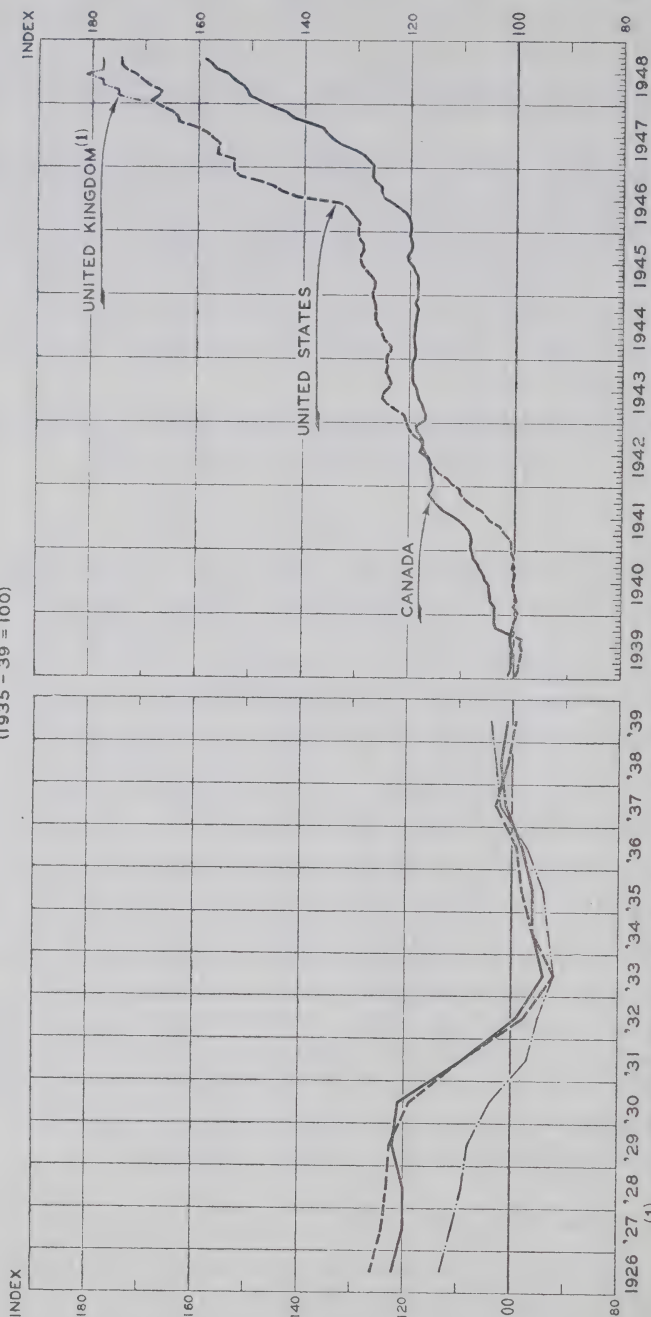
In comparing Canadian prices with those in other countries one is led inevitably to the use of composite price indexes. For all their defects, they are the best measure of general price changes available and they do provide a basis for reasonably accurate comparisons. The two indexes which seem to be most representative of price movements in statistically advanced countries like the United States, the United Kingdom and Canada are the index of wholesale prices and another index which measures the retail cost to consumers of a selected basket of goods, called variously consumers price index or cost-of-living index. These two indexes are generally based on a broad cross-section of the commodities entering into wholesale and retail trade. Although the construction and make-up of the indexes may differ between countries, just as the structure of production and consumer habits vary, a comparison of the composite indexes such as these are more likely to reflect a true picture of price movements than a comparison between the movements in the prices of a few important commodities common to the economies. Nevertheless, both methods of comparison, the composite index and the specific price, have their place. Of the two indexes, the wholesale index is particularly useful, since it represents a much wider group of commodities than the cost-of-living index.

How Prices Moved in the United States, United Kingdom and Canada

Two countries are selected for comparison with Canada: the United States and the United Kingdom. Eighty per cent of our imports are bought from them and over 70 per cent of our exports are sold to them. Moreover, these two countries play a dominant role in international trade generally. Wholesale prices and cost-of-living indexes for the three countries for the period since 1926 appear on the accompanying chart.

RETAIL PRICE INDEXES

CANADA - UNITED STATES - UNITED KINGDOM

$$(1935 - 39 = 100)$$


(1) THE UNITED KINGDOM COST-OF-LIVING INDEX WAS DISCONTINUED IN JUNE 1947 AND REPLACED BY A NEW "RETAIL PRICE INDEX" ON THE BASE JUNE, 1947 = 100. THE FORMER SERIES WAS MADE AVAILABLE FOR SELECTING PURPOSES AND SEVERAL ITEMS IN THE NARROW LIST OF CONTENTS HAD BEEN HEAVILY SUBSIDIZED, THIS KEEPING THE INDEX LOWER THAN WOULD HAVE BEEN THE CASE IF IT HAD NOT BEEN SO. HOWEVER, THE NEW INDEX IS MORE REASONABLE UNFORTUNATELY THERE HAS NOT BEEN PROVIDED AN OFFICIAL OVERLAY FOR THE NEW 1947 BASED INDEX. TELLING WHAT IT MAY BECOME WHEN ADJUSTMENTS HAVE BEEN MADE HOWEVER, THESE FIRST APPEARED IN THE LONDON AND CAMBRIDGE ECONOMIC SERVICE, AUGUST 1947, P. 132, AND AGAIN IN FEBRUARY, 1948 IN ARTICLES BY M. C. FRY AND D. G. BROWN. THE NEW INDEX ON A 1930 BASE AT 160 IN JUNE, 1947. THIS FIGURE BECOMES 184.6 WHEN MULTIPLIED BY 1.05 IN ORDER TO BRING IT INTO MATHEMATICAL PARITY WITH THE NEW OFFICIAL SERIES (OFFICE OF STATISTICS). THE FOLLOWING INDICES FOR 1948: JANUARY, 171; FEBRUARY, 175; MARCH, 175; APRIL, 176; MAY, 178; JUNE, 181; JULY, 176; AUGUST, 178; SEPTEMBER, 178.

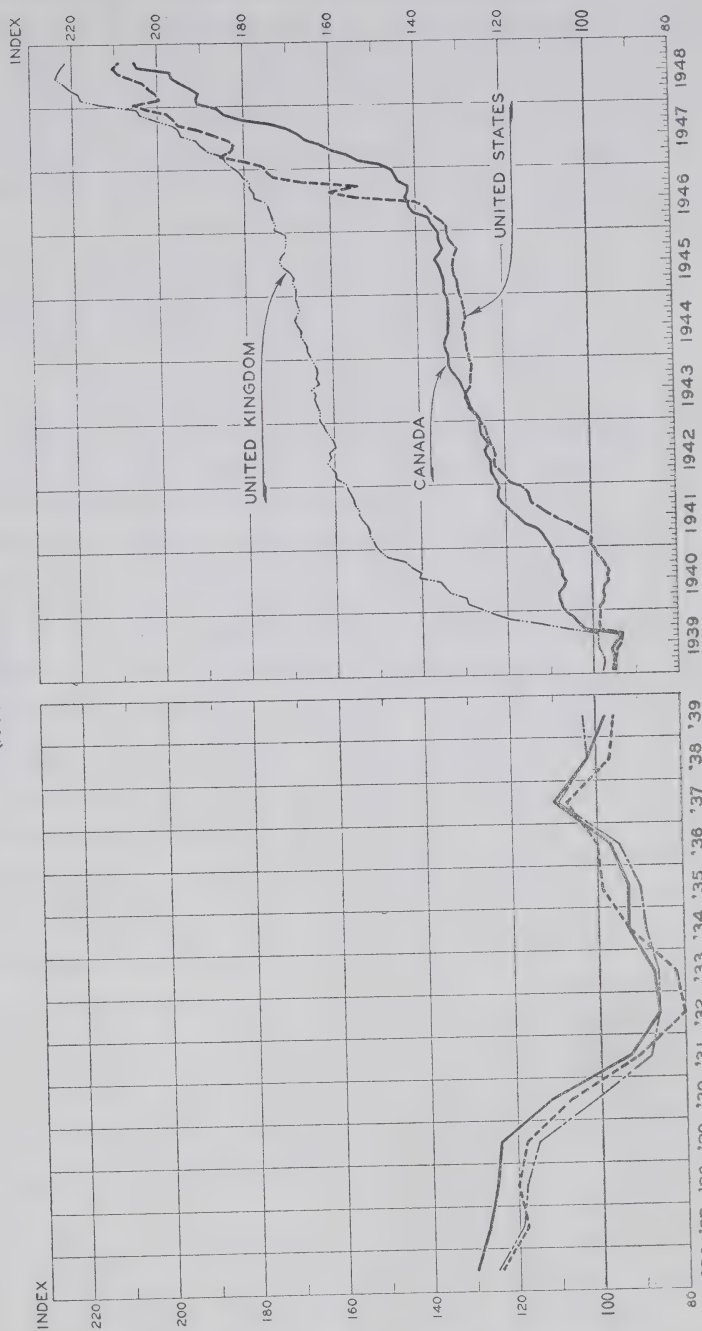
SOURCES: CANADA, COST-OF-LIVING INDEX, OFFICE OF STATISTICS; UNITED STATES, CONSUMER PRICE INDEX, BUREAU OF ECONOMIC ANALYSIS.

SOURCES: CANADA, COST-OF-LIVING INDEX, DOMINION BUREAU OF STATISTICS;
UNITED STATES, CONSUMER PRICES INDEX, BUREAU OF LABOUR STATISTICS;
UNITED KINGDOM, RETAIL PRICE INDEX, MINISTRY OF LABOUR

WHOLESALE PRICE INDEXES

CANADA - UNITED STATES - UNITED KINGDOM

(1935 - 39 = 100)



SOURCES: CANADA, COMMISSION BUREAU OF STATISTICS;
UNITED STATES, BUREAU OF LABOUR STATISTICS;
UNITED KINGDOM, BOARD OF TRADE.

The close relationship between the movement of prices in all three countries up to the outbreak of World War II is obvious. There was a greater divergence after the war, for reasons with which we shall presently deal, but even during this more recent period it is the similarity rather than the differences that strike the observer and that demand explanation.

Foreign prices affect Canadian prices most directly through the purchase abroad of consumer goods, capital goods and materials by Canadians, and through the impact on domestic prices of the prices received by Canadians for the goods they export.

INFLUENCE OF IMPORT PRICES

Prior to World War II, roughly 20 per cent of the value of all the goods and services sold by Canadians, either to other Canadians or as exports, originated outside Canada. During the war the proportion dropped slightly to 17.8 per cent in 1942, and to 18.7 per cent in 1945 but in 1947 it returned to the approximate pre-war average, 21.2 per cent.

High as this percentage is, it tends to underestimate the importance of the import content of goods purchased by Canadian consumers for use, and by business men for the production of goods to be sold in Canada. In the first place goods exported from Canada do not contain anything like 20 per cent by value of import content. The reason is that, unlike the situation that prevails in the United Kingdom where a large proportion of imports are processed and re-exported, the bulk of Canadian exports consists of primary production like grain, newsprint, lumber, and base metals. Although depreciation on import of capital equipment used in producing these primary products as well as interest and dividends payable to foreign owners may be regarded as elements in the costs of production, such items are relatively small compared to purely domestic costs. Furthermore, the import content of government expenditure, which forms a part of the Gross National Expenditure, is likely to be below the average of all expenditure, since such a large proportion of government expenditure consists of the purchases of services, mainly, the payment of wages and salaries to Canadian citizens.

Therefore, although it is exceedingly difficult to allocate imports amongst various kinds of expenditure, it is reasonable to assume that the import content of private expenditure on consumer and capital goods is much higher than the 20 per cent to 22 per cent average figures for all expenditure. Possibly the figure for goods purchased by consumers is around 30 per cent; for capital goods and equipment purchased by business men it may be even higher.¹

The effects are widely felt, for Canadian requirements from abroad are infinite in their variety. Almost every manufacturing plant in Canada is dependent in some way on imported fuels, materials, and machinery. The consumer is, of course, affected not only by changes in the price of the imported components of the goods he buys from Canadian manufacturers

¹In 1948, imports supplied about 36 per cent of Canadian expenditures for machinery and equipment. Cf. Chapter 5. The Investment Boom.

but by changes abroad in the prices of the goods which are imported in final form directly for sale.

The list of goods which Canada buys abroad is so comprehensive and varied that only a few of the more important items can be mentioned here. For example, 90 per cent of the petroleum used in Canada in 1947 was imported. Two-thirds of coal burned in Canada, including all the anthracite coal used, is imported. All the cotton and most of the wool, the basic components of most Canadian clothing, come to us from abroad. Fresh fruits and vegetables in the winter season, citrus fruits the year around, and a host of manufactured goods from automobile parts and automobiles to complex electrical machinery all form an integral part of Canadian consumption habits and Canadian productive processes.

INFLUENCE OF EXPORT PRICES

If an increase in the price of imports may be said to have a "pushing" effect on Canadian prices, then the prices which can be obtained abroad for Canadian goods may be said to exert a "pulling" effect.

The pushing effect of higher import prices is immediate and direct. To some extent so is the pulling effect of export prices. One excellent recent example of this was the action taken by the government in August, 1948, to remove the export embargo on cattle and beef shipments to United States. For some weeks in advance, prices in Canada climbed in anticipation of the lifting of the embargo, and continued to rise to the American level after the event took place. Mr. J. S. McLean of Canada Packers Limited, stated in evidence that, after the United Kingdom contract price increases became effective on January 5, 1948, the domestic prices of beef and pork went up in direct proportion to the export prices.¹

But since the bulk of the goods that Canada produces for export are concentrated in a few products which have a limited sale within the country these direct effects of export prices are probably not as great as the direct effects of import prices.

The effect of export prices upon domestic prices can also be modified more readily than the effect of import prices. Whereas insulation of the Canadian economy against higher import prices requires the payment of subsidies, the direct effect of higher export prices can be offset by export embargoes which prevent foreign demand from draining away domestic supplies, by bulk contracts which may fix the export price at levels below world prices and by export controls combined with price control.

Export prices are less likely to follow United States prices as closely as do import prices, since the proportion of exports sold to the United States is smaller than the proportion of imports bought from that country, and since the principal United States purchases are newsprint and wood-pulp which exert relatively little direct influence on Canadian price levels. However, during the past year the intensification of Canada's efforts to

¹Evidence, Special Committee on Prices, p. 2190.

expand exports to the United States, and the greater diversification in those exports, has resulted in closer relationship between Canadian export prices and the United States price level.

INDIRECT INFLUENCES OF EXTERNAL PRICES

It is doubtful whether the closely related movement of Canadian and United States prices can be entirely accounted for by the actual interchange of goods between the two countries. Other less obvious influences were at work. It does not, for example, require an actual shipment of goods across the border to bring price trends into line in the two countries. The mere possibility that such a movement might take place is often sufficient.

In addition to the direct price increases resulting from the higher price levels prevailing abroad for exported products, the bidding of Canadian exporters for factors of production have raised wages and prices of materials generally in all industry. In this way, for example, prices under the British cheese contract have affected the price of butter consumed entirely in Canada. These indirect effects of higher export prices are matched on the import side by the effect of higher prices on wage demands, which in turn produce secondary effects on the price structure and by the effect of higher import prices on the prices of competing or substitutable domestically produced goods.

The influence of proximity is another intangible which cannot be overlooked. The influence of the United States has permeated the thinking of Canadians in almost all fields of business and economics. Canadian security prices tend to take their lead from New York. United States business papers and periodicals have a wide circulation in Canada. Of even greater importance is the fact that with the degree of integration of industry that exists between the two countries, a large section of Canadian industry and the labour employed therein is subject to American control or guidance, and decisions affecting policies and prices set by the Canadian subsidiary or affiliate will frequently be made in the United States. For example, in evidence presented before us, Mr. W. C. Brown, of the United Shoe Machinery Company of Canada, Limited, disclosed that the terms prescribed by the parent company for the rental of its machinery in the United States applied equally to Canada.¹

THE EXCHANGE RATE

So far we have been discussing how foreign prices affect Canadian prices without regard to the fact that foreign prices are expressed in terms of foreign currencies whereas Canadian prices are expressed in terms of Canadian dollars. The link between them is, of course, the exchange rate, that is, the rate at which a foreign currency can be changed into Canadian currency or vice versa.

¹Evidence, Royal Commission on Prices, pp. 708-711.

Prior to 1939, Canadian foreign exchange had never been subject to direct control. On September 16, 1939, the Foreign Exchange Control Board was established by Order in Council. The Order in Council was subsequently replaced by the Foreign Exchange Control Act of January 1, 1947. The function of foreign exchange control has been defined as follows:

"The purpose of exchange control was to maintain exchange stability and to conserve Canada's supply of United States dollars for essential war and civilian requirements by ensuring that it was not dissipated on non-essential purposes such as capital export."¹

The fixed rate of exchange thus became, in 1939, an expression of government policy and the Foreign Exchange Control Board became the agency through which such policy was administered. All of the foreign assets of the Bank of Canada and certain foreign assets of the chartered banks were taken over by the Board. The chartered banks were no longer independent dealers and operators in foreign exchange and became merely the agents of the Board.

The rates of exchange at which transactions in Canada can be carried on are prescribed by the Governor in Council under the Foreign Exchange Control Act. The Foreign Exchange Control Board buys and sells foreign currencies at the exchange rates thus prescribed.

On September 15, 1939, at the inception of foreign exchange control, the Canadian dollar was fixed at 10 per cent discount in terms of the United States dollar. This rate continued until July 6, 1946, when the Canadian dollar was adjusted to parity with the United States dollar. This relationship continues to the date of writing this report.

The Foreign Exchange Control Act and the regulations of the Board passed by the Governor in Council thereunder do not authorize the Board to place restrictions on the international transfer of goods. In respect of exports the Board's function is to ensure that payment of not less than the fair value of the goods in a currency designated by the Governor in Council as acceptable is received within six months after the goods are exported. In respect of imports the Board is responsible for ensuring that payment does not exceed the fair value of the goods and is made in a currency designated by the Governor in Council as payable. In respect of the international exchange of services the principal role of the Board is to administer the government's policy with respect to reducing the expenditures of Canadians travelling abroad.

The main economic cause, as we understand it, of a policy of foreign exchange control as contrasted with free foreign exchanges, is to be found in the problem of capital transfers. It is entirely possible that an exchange rate which is in equilibrium on current balance of payment could be materially affected by sudden and large transfers of capital. For example, the Canadian-American exchange rate might be at par and a sudden desire to take capital out of Canada would put the Canadian dollar at a very large

¹Foreign Exchange Control Board, Report to the Minister of Finance, Ottawa, March, 1946.

discount. The results on current trade and the whole economy could be drastic.

To make a reasonable or intelligent judgment on the actual policy—which also includes Canadian adherence to the International Monetary Fund—would require a knowledge of foreign exchange matters which we could not reasonably be expected to obtain. In effect it is a field of inquiry in itself. In our analysis therefore, we have had to proceed on the basis of the existence of foreign exchange control.

It is pertinent to consider whether or not it would be possible to vary these rates so as to moderate the effects of rising prices abroad, particularly in the United States.

Suppose, for the sake of argument that, as United States prices rose, the Canadian government had been prepared to sell United States dollars at a correspondingly lower price. What would have happened? Import prices in general would have remained much as they were. Exporters, though able to sell for a greater number of United States dollars, would have realized about the same amount in Canadian dollars.¹ The net result therefore would have been to increase the demand for imports above what it would otherwise have been and to reduce the incentive for exporters to sell abroad. In other words, the current demand for foreign exchange would have tended to increase and the current supply to decrease.

Hence, unless such an exchange policy had been accompanied by a concurrent decline in the demand for goods from abroad or by a concurrent increase in the supply of goods for export or in some other change in the situation sufficient to offset the effects of the cheaper rate for the foreign currency, there would have been an increased drain on the reserves of foreign exchange.

These few remarks will have indicated why manipulation of the foreign exchange rate as a means of offsetting rising prices abroad has very definite limitations. In the final analysis, the exchange rate cannot be altered for purposes of moderating price increases abroad without giving consideration to the effect of the measure on the balance of payments and foreign exchange reserves.

THE EFFECTS OF DEVALUATION

At the outbreak of World War II Canada found herself in the unenviable position of being a heavy importer from a non-belligerent, the United States, while at the same time facing the prospect of obtaining an inadequate cash return from the sale of Canadian foodstuffs and materials to traditional customers abroad who were at war. It was evident at that time that United States dollars were to become a scarce commodity, and within a few hours after Canada entered the war foreign exchange control was instituted to conserve the limited United States dollar earnings and reserves. The Canadian dollar was fixed at a rate of 10 per cent below

¹Gold mines which sell at a fixed price in United States dollars would have received less in terms of Canadian dollars.

parity with the United States dollar; the pound sterling was set at a 10 per cent discount from its previous parity rate with the Canadian dollar, and 20 per cent below the United States dollar.

By October, 1939, the Canadian wholesale index was 10 per cent higher than it had been in August. The increase was fairly well distributed over foods, raw materials and manufactures, although the increase in food prices can probably be ascribed as much to the foreign demand for Canadian grains as to the increase in the cost of food items imported from the United States. An explanation for the increase in the raw and partly manufactured component of the index was that prices set in United States dollars (newsprint and base metals) held firm and in some instances increased, and Canadian prices rose in correspondence with the higher Canadian dollar return accruing to exporters. On the whole it seems evident that the depreciation of the Canadian dollar vis-a-vis the United States was an important factor in the increase in Canadian wholesale prices, although the rise in Canadian foods and materials may also be attributable in part to the general increases that occurred in United States and world prices.

EFFECT OF PRICE CONTROLS

The introduction of price controls in Canada in the autumn of 1941 reduced the disparity between the indexes which had arisen following the depreciation of the Canadian dollar. The more rapid increase in United States prices, however, ceased after the Office of Price Administration controls were imposed in 1942, and for the remainder of the war the difference between the two indexes remained at about the 1942 level.¹ The Canadian wholesale index, between October, 1941, and August, 1945, increased from 119.3 to 134.9, which just about equalled the increase in the United States wholesale index during that period, from 114.6 to 131.1.

The cost-of-living indexes showed a wider variation. Between August, 1939 and October, 1941 the Canadian cost-of-living index increased from 100.8 to 115.5; from then until August, 1945 the index increased only another five points. The United States consumers' price index during the same periods increased from 98.6 to 109.3 to 129.3 in August, 1945.

We find that the divergence between the two trends in the two countries was due primarily to the fact that

- (a) components of the Canadian index which were relatively unaffected directly by foreign prices, such as rent, transportation, electricity and medical services, were amenable to controls and showed a very small increase during the war. (Rent, fuel and light, miscellaneous expenditure on transportation, personal care, recreation and insurance, with a total weight of 48 in the index, increased only eight per cent over the wartime period compared with an increase of over 35 per cent in food and 22 per cent in clothing);

¹Cf. Chapter 2, The Course of Prices and National Income.

- (b) the major commodity items in the cost-of-living index, foods and textiles, were heavily subsidized by the Canadian government, by direct assistance on imports and by controls on exports;
- (c) the Canadian controls were on the whole more effective than those in the United States.

SUMMARY OF WAR-TIME EXPERIENCE

On the basis of Canadian experience during the war, it is not clear how much of the credit for keeping Canadian prices down can be attributed to the government price control and subsidy program, and how much to the fact that United States prices during the period were also maintained at a reasonable level. The Canadian wholesale index which had been at approximately the same level as the United States wholesale index when the war began, was between three and four points higher when it ended. That the increase in Canadian price levels was less than one might expect from the Canadian-United States dollar exchange rate may possibly be attributed to the superior efficacy of Canadian controls and related fiscal policy, but if United States prices had risen more sharply ours would probably have been somewhat higher too. As we have said before, it would have been exceedingly difficult, if not impossible, to hold the line in Canada had it not been for the timely control of prices in the United States early in 1942.

The cost-of-living indexes showed a wider variation during the war which suggests that the Canadian government's efforts in this field met with more success. Some of the burden of price increases in imported necessities was shifted from the low-income group to the population as a whole through the greater use of subsidies.

EFFECT OF OPA COLLAPSE ON CANADIAN PRICES

The first real test of whether Canada's price level could be isolated from increases in United States and world prices did not come until the summer of 1946, when OPA controls were removed in the United States. As the charts indicate, the United States wholesale index experienced sharper increases between May, 1946, and March, 1947, than in any period in its history. The over-all index increased from 137.7 in May to 154.7 in July, to 166.4 in October, to 174.8 in December and to 185.5 in March, 1947, a total increase of 47.8 points or 35 per cent. The United States consumers price index during that time increased by 19 per cent compared with an increase during the preceding seven years of approximately 32 per cent. This index was of course subject to some of the influences which tended to keep Canadian cost-of-living index increases lower than the rise in wholesale prices. For example, rents were still controlled, electricity prices were stable and transportation services had still to feel the influence of higher labour and material costs.

During this 10 month period (May, 1946 to March, 1947) the two Canadian indexes for the first time showed a wide deviation from the

American trend. The wholesale index increased by only 10 per cent with most of the increase concentrated in the first three months of 1947. The cost-of-living index increased less than six per cent.

If it is true that United States prices have a significant influence on Canadian prices, how could such a wide divergence occur in so short a period? It is hardly likely that any one single factor can account for the whole story, although the action taken by the Canadian government to reduce the impact of the rapid United States price increases probably played the major role.

GOVERNMENT ACTION TO MODERATE UNITED STATES PRICE INCREASES

This action took three main forms; (i) the appreciation of the Canadian dollar to parity with the United States dollar, (ii) the retention of price controls and subsidies on both imported and domestic commodities, and (iii) the retention of embargoes on the export of scarce products.

In 1939, when the external value of the Canadian dollar was fixed at a discount of 10 per cent in the terms of United States currency, the need for protecting the Canadian price level against increases in United States prices was a minor factor. The foremost consideration was the looming breakdown of the Atlantic triangle of trade, which up to that time had enabled Canada to meet its United States obligations with receipts from exports to the United Kingdom, the sterling area and Europe.

In July, 1946, however, when the Canadian dollar was returned to parity, the dollar shortage, which became so acute some 16 or 17 months later, was either not foreseen or, if foreseen, was not considered to be necessarily related to the immediate problem of rising prices. The government took the line that

“a very marked difference has developed between the general price levels of Canada and the United States” and that “we were faced with the alternative of either changing the exchange rate or of setting in motion, as the process of decontrol continued, an increase in our own price and cost structure more or less to the American level plus 10 per cent”.

The second facet of the government's efforts to neutralize the impact of rising United States prices on the Canadian economy (as well as the control of latent inflationary forces inside the country) was that the rate of decontrol, originally contemplated, was slowed down.

Early post-war price developments had been so favourable that the government had taken steps to implement its decontrol program early in 1946. When the United States trend became apparent the government reconsidered its program and instead of proceeding with the rapid dismantling of the price control machinery, and the elimination of subsidies, it left a large list of basic foods, materials and consumer goods under control. With regard to subsidies, the Minister of Finance, in the statement referred to above, made the further comment:

"The change in import price policy does not affect imports of materials basic to the cost of living which are at present being subsidized. We may find it necessary to increase subsidy payments, notwithstanding the government's desire to reduce and ultimately to eliminate all wartime subsidies of this character. And the same will be true of certain domestic subsidies."

A third element of government policy to neutralize the effect of higher prices abroad was its control over exports through permit regulations. These prevented higher export prices from stripping the domestic market of essential or scarce commodities, which would have tended to push up their price. The commodities principally affected were lumber, meat, grains, fertilizers and many products manufactured out of steel.

In addition to this direct control over exports, the bulk contracts with the United Kingdom for foodstuffs, base metals and lumber, in most instances at prices somewhat below prevailing world levels, established a yardstick for the domestic prices of these commodities, and frequently set a ceiling as well as a floor price.

RATE OF PRICE INCREASE OF IMPORTS

Government efforts to offset United States price increases in the early months of the post-OPA removal period were assisted by two rather fortuitous circumstances. The prices of the principal imports from the United States showed on the whole a much lower rate of price advance in the 10 months May, 1946, to March, 1947, than did the general United States wholesale index. Some representative increases are shown in the following list of items. The calculations are based on the United States wholesale indexes for each of the items shown.

TABLE 14
UNITED STATES WHOLESALE INDEXES FOR CERTAIN COMMODITIES
(Increases in United States Wholesale Prices)
May, 1946 to March, 1947

	Per Cent
Over-all United States Wholesale Price Index	36
Textile Products	28
Coal—Bituminous	15
Coal—Anthracite	10
Clothing	11
Petroleum Products	29
Motor Vehicles	32
Agricultural Implements	15
Structural Steel	6
Metal and Metal Products	28
Iron and Steel	20

Source: Standard and Poor's—United States Wholesale Price Index.

The second favourable occurrence from the point of view of price control efforts was that aggregate export prices during the period rose by only 14 per cent and helped hold in check those domestic prices which were determined by or related to export prices. This low rate of increase was,

however, in part derived from the stability in the prices of the commodities sold under bulk contract to the United Kingdom and referred to earlier.

The increase of eight per cent experienced by the cost-of-living index during the 10 months was not out of line with the previous movement of the index, with the service components, rent, fuel and lighting, and miscellaneous items again serving as a buffer against the larger increases that occurred in home furnishings, clothing and food. The United States consumers' price index showed a similar lag behind the wholesale index, increasing by only 19 per cent, contrasted with the 36 per cent for the wholesale index.

RAPID INCREASE IN CANADIAN PRICES IN 1947

In the 12 months following April, 1947, the Canadian wholesale index climbed a further 25 per cent from the May, 1946, base compared with a rise of only 10 per cent for the corresponding United States index. In April, 1948, the United States wholesale index was only five per cent higher than the Canadian, compared with 20 per cent in December, 1946, when the deviation between the two was at its peak. In October, 1948, for the first time since June, 1946, the Canadian index was higher than the United States index, 206.5 compared with 204.7.

The whole issue of the relationship between Canadian and United States prices hinges about this price rise in Canada in 1947 and 1948. Could Canadian prices have been held down or were the forces tending to bring prices in the two countries together too great to be harnessed, without at the same time bringing about a degree of state intervention incompatible with the functioning of a free economy in peacetime? This is a matter of opinion, for there can be differing ideas about the meaning of a free economy. That the degree of state intervention would have had to be very great we have little doubt. Mr. K. W. Taylor, Chairman of the Wartime Prices and Trade Board, expressed the view, before the Special Committee on Prices, that Canadian prices cannot

"be insulated from these external forces except by an elaborate continuing system of export controls by license and permit or by a government monopoly of the selling; and by a very complicated system of import subsidies and import allocations, and government monopoly of the buying."¹

Perhaps such subsidies and controls could have been justified if there had been a prospect that external prices would shortly have fallen to correspond with internal Canadian prices. But the outlook was highly uncertain and in fact external prices have not yet² fallen to anywhere near that level by February, 1949.

THE DOLLAR PROBLEM IN 1947 AND 1948

A factor of great importance in the determination of government economic policy in 1947 was the emerging dollar problem. Methods adopted by the Canadian government to offset price increases tended to have an

¹Evidence, Special Committee on Prices, p. 59.

²Autumn, 1948.

adverse effect on the balance of payments with the United States. The step of appreciating the currency to moderate United States price increases can hardly be said to have helped the balance of payments situation, although whether or not it worsened it to any degree is a matter for debate. Nevertheless the cumulative effect of the appreciation linked with the subsidies that were retained on some imported goods, undoubtedly provided a stimulus to the importation of a larger volume of goods. While the bulk commodity agreements with the United Kingdom eased the problem of keeping domestic prices down, they prevented their sale to the United States for United States dollars.

As 1947 progressed and the dollar problem became more acute the basic conflict between the two issues of price control and a better balance in Canada's United States dollar account became more obvious. If prices of United States imports were held down people tended to import more of them; if the prices were let go the consumers were hurt. There was apparently no middle road. In the end the need of dollars pushed the price issues into the background. Since November, 1947, whenever the conflict of interests has appeared, the dollar shortage usually has taken precedence. The ban on imports from United States and scheduled countries brought about price increases in home-grown substitutes; quotas on United States textiles forced the manufacturers and wholesalers to import more costly products from the United Kingdom; the so-called austerity taxes were designed to cut consumption of goods with a high United States content by increasing their price. Canada had been buying in the United States because the goods were cheaper or unobtainable elsewhere; interference with this mechanism meant recourse to more expensive markets or substitutes. Selling more products to the United States forced up the domestic prices of these products. One example of this was the lifting of the embargo on cattle and beef exports. The action produced a substantial amount of United States dollars for Canada, and higher income for the farmer, but it also resulted in an increase of close to three points in the cost-of-living index.

EFFECT OF BALANCE OF PAYMENTS' SURPLUS IN 1948

The program that was designed to improve Canada's balance of trade with the United States helped bring about a current account balance of payments' surplus of considerable magnitude (possibly \$400 to \$500 million in 1948 compared with a balance of less than \$50 million in 1947). Such a surplus has inflationary effects. The production of goods for export creates income; if no compensation is received for the exported products in the form of imported goods or services, disposable income will exceed the market value of goods available for consumption at current market prices.

The other side of the coin is seen in the monetary effects of an export surplus. In the days of the gold standard, a balance of payments' surplus would bring about an inflow of gold. This would expand the base of the money supply and prices would go up. In theory this would reduce foreign demand for the exports and lead to equilibrium in the balance of payments.

In Canada to-day an export surplus is financed mainly by government loans or credits to foreign countries or by the accumulation of gold and United States dollars by the Foreign Exchange Control Board. Each of these has the same effect of using the funds accumulated by government budgetary surplus, thus neutralizing its deflationary effect by the amount of the balance of payments' surplus or of requiring the government to obtain the needed cash by borrowing.

It should be noted that as an inflationary influence, a balance of payments' surplus falls into the same category as investment in capital goods. It withdraws products from the supplies available for consumption without decreasing the income created by their production.

TABLE 15

ADVANCES TO FOREIGN COUNTRIES UNDER THE EXPORT CREDITS INSURANCE ACT AND UNITED KINGDOM FINANCIAL AGREEMENT ACT

(millions of dollars)

(By Calendar Years)

	1945	1946	1947	1948	Total
Export Credit Countries:					
Belgium	18.0	33.0	16.0	1.0	68.0
China	—	16.5	16.2	18.4	51.0
Czechoslovakia	0.7	3.2	8.2	4.3	16.3
France	—	143.8	54.6	43.8	242.2
Netherlands	25.0	35.4	44.2	14.2	118.9
Bank for Netherlands Indies	0.6	4.8	4.6	5.0	15.0
Norway	6.2	10.2	3.6	3.4	23.3
U.S.S.R.	2.5	0.4	0.02	—	2.9
Totals	53.0	247.3	147.42	90.1	537.6
United Kingdom	—	540.0	423.0	52.0	1,015.0
Grand Totals	53.0	787.3	570.42	142.1	1,552.6

Source: Department of Finance, Ottawa.

THE INFLATIONARY EFFECT OF LOANS AND CREDITS

We have referred to the relation between foreign loans and credits and the balance of payments' surplus. These loans and credits were of such magnitude that they deserve more than passing mention. Indeed, one witness included them among the important causes of rising prices in Canada.¹

¹Evidence, Special Committee on Prices, p. 58.

As will be seen from the Table 15, advances to foreign countries in 1945 totalled \$53 million, in 1946, \$787 million, in 1947, \$750 million, and in 1948, \$142 million. Although the rate of drawings is not strictly comparable to the movement of goods, in 1946 the advances approached one-third of total commodity exports (slightly under one-quarter of total current account credits) and in 1947 approximately 20 per cent of commodity exports or 15 per cent of total credits. In addition during the same period Canada provided military relief and made contributions through UNRRA and post-UNRRA agencies and to the International Refugee Organization totalling about \$275 million.

Obviously if exports of the volume indicated had not taken place, the drop in Canadian income would have been large enough to dampen down some of the inflationary pressures, although the deflationary influence would have been felt initially and most severely in the regions which produced the bulk of the primary products financed by the credits. Nevertheless, looking back on the two years 1946 and 1947, it is possible that exports would not have been so greatly affected by the absence of export credits as might appear at first glance. Some of the products sold to Europe on credit could have been sold to the United States or Latin America for cash. In other instances the needs of the European countries were so compelling that they would have purchased the goods out of their rapidly diminishing reserves rather than do without. Even so, undoubtedly some balance of exports could not have been sold. From this point of view, the credits can be considered inflationary only to the extent that they facilitated the export of goods not otherwise saleable.

On the other hand, had Canada demanded and been able to obtain "cash on the barrel head" in the early post-war years, more cash, that is, United States dollars, would have been available to buy more United States goods, thus adding to the total supply of goods in Canada and perhaps reducing the necessity for import restrictions.

Because they were inflationary in effect does not imply that Canada should not have extended loans and credits and other assistance to needy countries. We are inclined to agree with the views of the Canadian Congress of Labour, expressed to us through Mr. Forsey, that "it was not only our moral duty but also in our long-run economic and political interest to extend such loans and assistance".¹ But the decision to provide this aid, however much it was justified, did add to demand without adding immediately to supply and thus contributed to inflationary pressures. Foreign loans and credits in this respect are like domestic investment expenditures.

"The immediate effect of such loans or assistance is to send large quantities of goods overseas for which we get no immediate payment. The Canadian farmers and workers who produce these goods get paid in Canadian dollars supplied by the Canadian government, but there is for the time being no return flow of goods to Canada to match this additional spending power. The effect on the economy

¹Evidence, Royal Commission on Prices, p. 2108.

as a whole is to maintain or increase Canadian incomes and at the same time to reduce or retard the expansion of the supply of goods on which these incomes can be spent."¹

OTHER FACTORS IN 1947 AND 1948

Attention should also be drawn to the fact that price increases in the import items which in the early months after OPA collapsed had lagged behind the United States wholesale price index, gained momentum, and in most instances showed a greater increase in the last six months of 1947 and first six months of 1948 than did the wholesale index. The most spectacular increase was in petroleum products, Canada's leading import in 1947. Although 30 per cent of imports came from sources other than the United States, the price was determined in the United States, where it jumped 50 per cent between April, 1947 and April, 1948.

The Canadian cost-of-living index rose from 136.6 on August 1, 1947, to 157.5 one year later, an increase of 15 per cent compared with increases of 21 per cent in the Canadian wholesale index and 10 per cent in the United States wholesale index during the same period. Part of its increase was attributable to direct increases in the cost of imported commodities, part to the removal of subsidies, and part to the rising level of domestic foods which had been released from export control. There were also evidences of secondary or delayed reactions in some of the service items, although rent and electricity held fairly steady. As wages and basic materials prices rose, the prices of such services as medical and hospital fees, automobile and tramway costs were subject to pressure. Although it is questionable if all of these increases can be laid directly at the door of import and export prices, it is valid to attribute responsibility to foreign prices to the extent that they contributed to price and wage increases.

SUMMARY AND CONCLUSIONS

The degree to which Canadian price movements have corresponded with those in the United States can only be accounted for by the existence of some mechanism which transmits these price changes from one country to the other. With the dominance of the United States economy this has meant, with rare exceptions, that Canadian prices follow those in the United States. The mechanism through which this transmission of price movements takes place has several elements, the principal one being the pervasive influence of imports from the United States on Canadian productive processes and markets. Prices received by Canadian exporters tend to have a similar though probably less direct effect on the domestic price level, since the consumption in Canada of most of the main export commodities is small in relation to the volume of production. The direct and indirect effects of import and export prices on the Canadian price level are reinforced by the unusually close business and personal relationships that exist between Canada and the United States. The feeling of most Canadians

¹Evidence, Special Committee on Prices, p. 58.

that if United States prices go up those in Canada are bound to follow, results frequently in decision that will assist in bringing about a rise in Canadian prices. The very existence of an investment boom in the United States is found to affect the Canadian economy.

That the equilibrating mechanism can be temporarily interfered with by government action was demonstrated most clearly in late 1946, although deviations of lesser magnitude had occurred previously. When controls collapsed in the United States in the summer of 1946, the Canadian government took steps to appreciate the Canadian dollar and at the same time retained a modified version of the wartime price and export controls and subsidies. Government efforts to neutralize United States price increase were aided by a rate of increase in the price of imports lower than the corresponding increase in the United States price as a whole; as a result for some months Canadian and United States prices diverged widely. Since April, 1947, however, Canadian prices have risen faster than United States prices and, at the time of writing, the Canadian wholesale index has caught up and passed the United States' index.

The fact that the government could hold Canadian prices down, even for a short period, while United States prices were rising, has led many observers to conclude that prices could have been held indefinitely at levels roughly approximating those of 1945. The evidence submitted by the officials most concerned suggests strongly that a continuation of controls on a scale necessary to accomplish this objective would have led to insuperable problems of administration and enforcement. The wartime controls were effective not only because the disparity between Canadian and United States prices was relatively small during the war but because of overwhelming public support.

The difficulties of holding prices down at home were increased by the emergence of the dollar problem in 1947. The subsidies and mark-up controls on imported goods, although a partially effective price control measure, tended to produce an increased volume of imports in the subsidized products. When steps were taken in late 1947 to restrict the purchase of some United States goods, the use of domestic substitutes or similar goods obtained from other countries resulted in higher prices in Canada. A larger volume of exports to the United States to improve the dollar position meant in many instances an increase in the domestic price.

THE INVESTMENT BOOM

A NUMBER of witnesses before the Special Committee on Prices and ourselves dealt with the effect of the recent high level of capital expenditure upon price levels in Canada.

Mr. K. W. Taylor, Chairman of the Wartime Prices and Trade Board, included it among the "five more specific factors bearing directly on the Canadian price structure". Mr. Eugene Forsey, Director of Research for the Canadian Congress of Labour, said, "there appears to be little doubt that the boom in industrial capital expenditures has had an important inflationary effect". Mr. Graham Towers, Governor of the Bank of Canada, said that it was probable "that the tremendous rate of capital development did have an upward influence on costs and prices in that field". Mr. Courtland Elliott, when he appeared before us on behalf of the Canadian Chamber of Commerce, answering a question about the use of retained profits for capital expansion, said that he thought that

"in any short period, particularly in a period of abnormal scarcities, the competition of business for scarce materials would have some effect on the price level. It should not be overlooked, however, (he went on) that business only makes these investments with a view to their productive use, and the productive use of such investments in past years has led to such technological advances and to such an improvement in the ways of production, particularly of war production, that whatever the temporary effect upon the price level might be, in the long run it has the effect of holding prices down".

The Relation of Investment to Inflation

When there is a supply of idle labour and productive capacity in the construction and machinery industry, increased expenditures for investment purposes may take place with little or no rise in prices. But when the increased demands are sudden and large the supply of resources already in the field may be inadequate to meet them. In such circumstances the industry will have to compete for a supply of materials and labour with other industries, and this is usually accompanied by rising prices. We discuss the specific way in which supply in the machinery and construction industries has adjusted itself to the post-war demands created by the substantial rise in investment expenditures in some detail, at a later point in this chapter.

In addition to the direct effects which an increase in investment expenditures may have on prices in the construction and machinery industry there are other and in many respects more important effects on price levels in general. These effects arise out of the special relation which investment expenditures bear to our economy. In analyzing this relationship it is convenient to distinguish between short-run and long-run effects.

In the short run any increase in the volume of investment expenditures results in an increase in income to which there corresponds no immediate flow of goods on the consumer market. When workers, business firms, or other groups attempt to spend this increased income there will be an increased demand for consumer goods. The effects of increased demand may be either an increase in the output of consumer goods or a rise in prices. At a time when there are unemployed workers and unused plants which can be put to work increasing the flow of consumer goods, these increased expenditures out of income earned in the production of investment goods are likely to result primarily in increased production. But in a period like the past few years when there has been little or no unemployment these increased incomes bidding for consumer goods result mainly in a rise in prices.

This effect of investment upon prices is directly related to our willingness to save part of our current income. These savings are only partially made by the same individuals or business firms that do the investing. In fact, the investment decisions, the decision of an individual to buy a new house or a business firm to build a new factory are often made quite independently of the decision to save part of current income. Although part of the investment may be financed out of current savings, a substantial part may also be paid for by drawing on past savings or by borrowing from the banks or other financial institutions. This means that some groups in society are spending more than their current income. Unless other groups save enough to offset this excess, the country as a whole will be trying to spend more than it is currently producing. If this occurs, the attempt to make these extra expenditures places an upward pressure on prices. In general, once the economy is fully employed, if investment expenditures just balance the amount of savings which all groups in society are prepared to make, prices are likely to stay at about the same level. If investment expenditures are greater than this, an attempt to make these expenditures will tend to force up the level of prices. On the other hand if investment expenditures fall short of the amount of savings which all groups in the economy are prepared to make, total expenditures will prove too small to maintain the existing price and income levels. The result will be a decline in prices or in production or in employment or in all three.

The data we examine below will show that the past few years have been years in which the investment expenditures made by business firms and individuals have consistently exceeded the amount which Canadians at existing price levels saved. The result was an upward pressure on prices.

There can be no assurance that investment expenditures will remain at a level which ensures both stable prices and adequate levels of employment. A survey of our history shows that private investment expenditures have been one of the most unstable elements in our economy, rising to high levels in periods of prosperity and falling to very low levels in periods of depression.

In the longer run also, investment expenditures bear an important relation to inflation. The increased quantity of capital equipment available,

capital which incorporates the latest and most efficient production techniques, results in an increased flow of production. Both the increased quantity of capital per worker and its greater technical efficiency increase the average worker's productivity and reduce unit production costs. These gains in productivity have been and undoubtedly will continue to be an increasingly important factor in slowing up the rise in prices and will perhaps lead to an eventual decline as more and more of the factories and machinery come into production.

Definition of Investment

Before turning to an examination of the size and effects on prices of the investment program it is convenient to adopt a number of definitions for different components and types of investment. We define investment as the aggregate of all goods and services which add to the stock of durable physical assets held by producers and housing owned by consumers, which effect a net change in the level of inventories held by producers, and which result in a net change in foreign assets abroad held by Canadians. The first two mentioned flows of goods and services are called domestic gross investment or domestic gross capital formation, the third net investment abroad, and the sum of the three items total gross investment.¹ Our analysis is primarily concerned with the effects of domestic gross investment and only incidental reference is made to net investment abroad.²

Investment in durable physical assets consists of additions to buildings, installations, engineering works and machinery and equipment irrespective of whether these expenditures are made for entirely new projects or for the replacement or improvement of existing assets. Buildings cover those used by business, institutions, governments and as residences. The goods (and services) which are purchased for investment purposes are called capital goods. They are used in substantially the same form over an extended period of time. However, each year some of the productive value of these capital goods is used up or diminished either from production (wear and tear) or from the passage of time (obsolescence). Business attempts to allow for this reduction in value through depreciation charges. If this reduction in value of existing durable physical assets is deducted from current gross additions to the existing stock, a smaller quantity, called net investment in durable physical assets, is arrived at. Expenditures for capital goods involve a major outlay at the time of acquisition, but further investment expenditures are small until replacement or expansion becomes necessary. Consequently, the production of capital goods in any one year may be above or below the amounts used up, depending upon the current need for replacement and the apparent and foreseeable demand for increased capacity.

Investment in inventories is the change in stock of goods necessary for production and distribution purposes but not yet in the form or the location

¹For a more detailed discussion of the concepts involved see Public Investment and Capital Formation, a study of Public and Private Investment in Canada, 1926-1941, Dominion-Provincial Conference on Reconstruction, Ottawa, 1945.

²Net investment abroad was \$17 million in 1947, a negligible portion of the total investment of \$2.9 billion.

in which these goods are finally used. Inventories must be kept on hand if there is to be a continuity of production and an efficient working of the distribution system. Inventories include such things as stocks of raw materials, work in progress and finished consumer and producer goods.

Quality of Statistical Data Used

As a result of the significant advance in the development of economic statistics in Canada in recent years, particularly in the field of the national accounts, sufficient evidence is available to present a picture of the role and behaviour of investment in Canada. However, since some of the estimates are based on scanty primary data, they can only be considered as first approximations. Estimates for 1948 are in all cases preliminary.

THE SIZE OF INVESTMENT EXPENDITURES

How large have domestic investment expenditures actually been in recent years?

The question may be answered in several ways. One way is to compare total domestic investment expenditures, (gross home investment) for a given period with the total available supply of goods and services. This total supply consists of Canada's current production as measured by "Gross National Expenditure" and "Gross National Product" plus our imports of goods and services.

TABLE 16

COMPARISON OF GROSS HOME INVESTMENT WITH GROSS SUPPLY OF
GOODS AND SERVICES, CANADA, SELECTED YEARS, 1929-1948

(billions of dollars)

Year	Gross Supply of Goods and Services (amount)	Gross Home Investment Expenditures (amount)	Per Cent of Gross Home Investment to Gross Supply of Goods and Services
1929	7.9	1.1	14
1933	4.3	.1	3
1939	6.9	.9	13
1945	14.6	.6	4
1946	14.7	1.8	12
1947	17.0	2.9	17
1948	18.7	3.4	18

Sources: Dominion Bureau of Statistics, National Accounts, 1926-1947, Table 102. Preliminary estimates for 1948 from Economic Research Branch, Dept. of Reconstruction and Supply.

It appears from the foregoing table that Canadians spent in 1948 the largest amount they ever spent in any one year on new construction, the purchase of machinery and equipment and additions to inventories. But in order to view the situation in true perspective, it is necessary to carry the analysis somewhat further. First, it will be observed that even in 1948, investment expenditures absorbed only four per cent more of the gross supply of goods and services available than in 1929, the peak year of economic activity in the pre-war period.

Moreover, in 1948, inventories went up, absorbing some four per cent of the gross supply of goods and services, whereas in 1929 inventories hardly changed at all. So that, in terms of investment in durable physical assets, that is, new construction and the purchase of machinery and equipment, the investment boom of 1948 had much the same relative importance as the investment boom of 1929 (14 per cent). But this percentage does not allow for price changes of capital goods which occurred in this period. If allowance is made for this factor the ratio of investment in plant, equipment and housing to total gross supply of goods and services is reduced to 12 per cent for 1948, as compared with 14 per cent for 1929.

The recent investment boom is, of course, very much larger in absolute terms than any previous year, including 1929. After deducting the increase in inventories which occurred in 1948, the dollar value of investment in 1948 was more than double 1929. Making adjustment for the difference in price levels between the two years, 1948 investment expenditures in physical units were about one-third higher than in 1929. The following table is constructed to indicate the relative position in terms of both "current dollars", that is, actual dollars spent and in terms of "constant dollars", that is, after price changes have been eliminated.

TABLE 17

INDEX NUMBERS OF INVESTMENT IN DURABLE PHYSICAL ASSETS, CURRENT AND CONSTANT DOLLARS, CANADA, SELECTED YEARS, 1929-1948

(1939 = 100)

Year	Current Dollars	Constant Dollars
1929	165	152
1933	43	47
1939	100	100
1945	144	106
1946	203	143
1947	301	183
1948	374	197

Source: Economic Research Branch, Department of Reconstruction and Supply.

Another basis for judging the size of Canada's investment program is by comparison with the size of similar expenditures in the United States. Reasonably comparable data are available for non-government investment in durable physical assets in the two countries.

It is significant that over the past two decades, a larger portion of Canada's resources has been consistently devoted to investment than in the United States. With reference to the post-war period, there was very little difference in the relative importance of investment expenditures between the two countries in 1946. In 1947 and 1948, however, the investment boom assumed much greater relative importance in Canada than in the United States.

TABLE 18

NON-GOVERNMENT INVESTMENT IN DURABLE PHYSICAL ASSETS AS A
PROPORTION OF GROSS NATIONAL EXPENDITURE, BY TYPE,
CANADA AND UNITED STATES, SELECTED YEARS 1929-1948

(per cent)

Year	Manufacturing		Housing		Other		Total	
	Canada	United States	Canada	United States	Canada	United States	Canada	United States
1929	3.3	2.8	3.5	2.8	11.8	8.1	18.6	13.7
1933	1.2	1.4	1.4	.6	3.8	3.2	6.4	5.2
1939	1.9	2.1	2.1	2.4	5.9	5.0	9.9	9.5
1945	1.7	1.5	1.7	.4	4.0	2.9	7.4	4.8
1946	2.7	2.9	2.8	1.7	5.6	5.7	11.1	10.3
1947	3.8	3.2	3.4	2.3	8.0	7.0	15.2	12.5
1948	3.9	3.2	3.6	2.5	8.4	8.4	15.9	14.1

Source: Estimate for Canada, Department of Reconstruction and Supply and Dominion Bureau of Statistics. Estimates for the United States from the Survey of Current Business, United States Department of Commerce, July, 1947, (Supplement), February, 1948, and August, 1948.

Other information available to us showed, however, that the United States is devoting a larger share of resources to provide new machinery and equipment than is Canada. Consequently, our housing and other construction expenditures have been correspondingly larger in proportion to our resources.

Private and Public Investment Expenditures

Who has been making the investment expenditures and for what purpose? A significant division is between expenditures initiated by private individuals and organizations and those undertaken by governments. Let us look first at the gross figures (excluding inventories).

TABLE 19

INVESTMENT IN DURABLE PHYSICAL ASSETS, PRIVATE AND PUBLIC
INVESTMENT, CANADA, SELECTED YEARS 1945 to 1948*

(millions of dollars)

Year	Private Investment	Public Investment	Total Investment	Public Investment as a Proportion of Total (per cent)
1945	832	316	1,148	27.5
1946	1,276	344	1,620	21.2
1947	1,901	498	2,399	20.8
1948	2,281	703	2,984	23.5

a) Data for years prior to 1945 not available.

Source: Economic Research Branch, Department of Reconstruction and Supply.

TABLE 20
INDEXES OF INVESTMENT IN DURABLE PHYSICAL ASSETS
(1939 = 100)

Year	Private Investment		Public Investment	
	Current Dollars	Constant Dollars	Current Dollars	Constant Dollars
1929	176	162	137	124
1933	41	45	47	52
1939	100	100	100	100
1945	144	106	142	105
1946	222	157	155	107
1947	330	202	224	134
1948	396	210	317	165

Source: Economic Research Branch, Department of Reconstruction and Supply.

More than three-quarters of post-war investment expenditures were initiated privately. It is worth noting, however, that not all of this private expenditure was privately financed. For example, 19 per cent of privately-built housing in 1947 was built with some government assistance. Looking more particularly at the post-war boom, it is significant that private expenditures have increased much more rapidly than public expenditures. In 1946, for example, public expenditures in dollar terms were 55 per cent above 1939, in 1947, 124 per cent above the same year, and in 1948, 217 per cent higher, whereas private investment expenditures were 122 per cent above 1939 in 1946, 230 per cent above in 1947, and 296 per cent above in 1948. The current volume of private investment is more than twice its pre-war level, while public investment is only up by two-thirds.

Business and Other Investment

Business investment differs from private investment by the inclusion of public utilities and government-owned corporations and by the exclusion of housing and institutional building. It is a measure of the investment being made to maintain and improve the productive capacity of the country. Non-business expenditure comprises housing, institutional and direct government building. A general indication of the relative importance of the two groups is given by the following table.

TABLE 21
INVESTMENT IN DURABLE PHYSICAL ASSETS, BUSINESS
AND OTHER INVESTMENT, CANADA, 1945-1948*
(millions of dollars)

Year	Business Investment	Other Investment	Total Investment	Business Investment as a Proportion of Total Investment (per cent)
1945	570	578	1,148	49.7
1946	953	667	1,620	58.8
1947	1,486	913	2,399	61.9
1948	1,873	1,111	2,984	62.8

a) Data for years prior to 1945, not available.

Source: Economic Research Branch, Department of Reconstruction and Supply.

A study of the components of business investment shows that from 1945 to 1947, the two main driving forces were investment by manufacturing and by primary industries, including the construction industry. But the situation changed in 1948, with both these types of investment levelling off and two segments of investment, utilities and commercial, merchandising and service establishments pushing ahead to take a larger share of the total.

TABLE 22
INVESTMENT IN DURABLE PHYSICAL ASSETS, BUSINESS BY TYPE,
CANADA, 1945-1948^a
(millions of dollars)

Year	Manufacturing		Primary Industries and Construction Industry		Utilities		Commercial Merchandising and Services		Total Business Investment
	Amount	Per Cent of Total	Amount	Per Cent of Total	Amount	Per Cent of Total	Amount	Per Cent of Total	Amount
1945	196	34.4	170	29.8	121	21.2	83	14.6	570
1946	321	33.7	229	24.0	239	25.1	164	17.2	953
1947	513	34.5	369	24.8	371	25.0	233	15.7	1,486
1948	594	31.7	432	23.1	528	28.2	319	17.0	1,873

a) Data for years prior to 1945 not available.

Source: Economic Research Branch, Department of Reconstruction and Supply.

Investment in New Construction, Machinery and Equipment

Investment in durable physical assets may be subdivided further into (1) new construction such as factories, buildings, houses, bridges, and roads or (2) new machinery and equipment. Expenditures on new construction, major improvements and alterations represent currently about three-fifths of total investment in durable physical assets. Construction in 1948, was 83 per cent above the volume of 1939, while machinery and equipment were 117 per cent above their 1939 level in terms of constant dollars.

TABLE 23
INVESTMENT IN DURABLE PHYSICAL ASSETS, CONSTRUCTION AND
MACHINERY AND EQUIPMENT, CANADA, 1945-1948^a
(millions of dollars)

Year	New Construction and Major Improvements and Alterations	New Machinery and Equipment Purchases	Total
1945	706	442	1,148
1946	1,014	606	1,620
1947	1,359	1,040	2,399
1948	1,704	1,280	2,984

a) Data for years prior to 1945 not available.

Source: Economic Research Branch, Department of Reconstruction and Supply.

TABLE 24
INDEXES OF INVESTMENT IN DURABLE PHYSICAL ASSETS
(1939 = 100)

Year	New Construction and Major Improvements and Alterations		New Machinery and Equipment Purchases	
	Current Dollars	Constant Dollars	Current Dollars	Constant Dollars
1929	165	147	164	159
1933	49	54	35	37
1939	100	100	100	100
1945	150	110	135	101
1946	216	147	185	138
1947	289	168	317	205
1948	363	183	390	217

Source: Economic Research Branch, Department of Reconstruction and Supply.

Housing

More houses were built in 1947-1948, than in any two previous years. As the following table shows, Canada is currently building almost twice as many units as in 1939. Even if account is taken of changes in population, the results for 1948, 6.3 units per thousand population, are still considerably above the 4.3 units per thousand built in 1939. The demand for new houses does not depend on population increases alone but also on what is called in technical language "net family formation", that is, the number of new families formed minus the number of existing families dissolved or removed in any one year. Because of the high marriage rate in the war and post-war years and more lately the higher rate of immigration, the number of new families in Canada has increased substantially in the last decade. The current rate of family formation is over 50 per cent greater than it was before the war. Only in the last two years has the rate of housebuilding caught up with annual increase in the number of new families. Since the majority of these new families are looking for housing accommodation the present rate of housebuilding, remarkable as it has been, has done little so far to reduce the aggregate pressure for added and improved housing accommodation built up during the depressed 'thirties and the war period of the 'forties.

Investment in Inventories

Business firms have made substantial additions to the volume of goods held in inventories during the last three years. The most rapid increase occurred in the first full post-war year, with inventories continuing to increase in 1947 and 1948 but at a somewhat slower rate. Part of these increased stocks was necessary to provide working stocks for the increased production of peacetime commodities. Some part also went towards building up the stocks in wholesale and retail channels which had become depleted

TABLE 25

POPULATION, NET FAMILY FORMATION AND DWELLINGS BUILT, CANADA,
SELECTED YEARS, 1939-1948

Year	Total Population as at Dec. 31, (thousands)	Net Family Formation (thousands)	Dwellings Built (thousands)	Number of Dwellings Built per 1,000 Population
1939	11,334	54	49	4.3
1943	12,229	59	49	4.0
1946	12,467	108 ^a	67	5.4
1947	12,708	76	79	6.2
1948 ^b	13,059	83	81	6.3

a) Including the arrival of 32,000 war brides.

b) Preliminary.

Source: Joint estimate by Economic Research Branch, Department of Reconstruction and Supply and Economic Research Department, Central Mortgage and Housing Corporation based on data supplied by the Dominion Bureau of Statistics.

during the war. Despite this general inventory accumulation there was little in the evidence presented before us of any deliberate withholding of stocks from the market in anticipation of a further rise in prices. Where inventories have been built up in substantial quantities this seems to have been more a result of output catching up with sales than a result of a deliberate policy of withholding goods. In general business men seem to have been following a cautious policy with respect to inventories.

Due to the higher prices now prevailing the value of inventories has, of course, risen a good deal more than the actual quantity of goods in stock.

TABLE 26

INVESTMENT IN INVENTORIES AS REFLECTED BY THE CURRENT VALUE OF
PHYSICAL CHANGE, CANADA, SELECTED YEARS, 1929-1949

(millions of dollars)

Year	Business Inventories		Sub-Total	Farm Inventories			Total Inventories
	Non Agricultural Inventories ^a	Grain in Commercial Channels		Grain on Farms	Live Stock on Farms	Sub-Total	
1929	+ 125	+ 34	+ 159	- 144	—	- 144	+ 15
1933	- 73	+ 10	- 63	- 29	—	- 29	- 92
1939	+ 195	+ 127	+ 322	+ 34	+ 25	+ 59	+ 381
1945	+ 126	- 212	- 86	- 167	- 71	- 238	- 324
1946	+ 434	- 46	+ 388	+ 66	- 107	- 41	+ 347
1947	+ 391	+ 22	+ 413	- 74	- 26	- 100	+ 313

a) Includes Inventories of Farm Products held by manufacturing enterprises.

Source: Economic Research Branch, Department of Reconstruction and Supply.

INVESTMENT DEMAND AT THE END OF WORLD WAR II

In the 'thirties, investment in durable physical assets was about two-thirds of what it had been in the 'twenties. Investment in all sectors of the economy dropped to a very low level in 1933 and recovered slightly by 1937. However, while investment dropped, new inventions, new industrial techniques and a larger population were all creating a latent demand for new investment.

The outbreak of the war in 1939 effectively halted any significant investment which might have been made for civilian purposes, as a large part of the nation's resources was diverted to war production. Throughout the war, little building material and fewer workers could be spared to meet the need for civilian plant and equipment.

By 1945, therefore, Canada had accumulated a large volume of investment projects which were the result of the lack of replacement, modernization and expansion of the capital structure during the depression of the 'thirties and the low volume of investment for purely civilian purposes during the war.

Sources of Funds for Investment

Apart from an accumulation of demand, there was also an accumulation of liquid funds. In 1945, business firms and individuals held over \$9 billion in Dominion government bonds and funds in the form of cash and bank deposits amounting to nearly \$6 billion. Although these financial resources, more than two and one-half times as large as in 1939, were particularly important in 1945, the rise in prices reduced their effectiveness. At the end of 1948, the total of liquid funds was about the same as in 1945, though differing in composition but, by the end of 1948, this total was no larger in proportion to our Gross National Product than it had been in 1939. This is illustrated by the following table.

TABLE 27
BUSINESS AND INDIVIDUAL HOLDINGS OF DOMINION GOVERNMENT
BONDS, INACTIVE NOTICE DEPOSITS AND MONEY SUPPLY,
CANADA, SELECTED YEARS, 1939-1948
(As at December 31 in billions of dollars)

Item	1939	1945	1946	1947	1948
1. Business ^a and Individual Holdings of Dominion Government Bonds	2.8	9.2	8.4	8.0	7.5
2. Money Supply	1.4	3.5	4.0	3.9	4.2
Cash	0.3	1.1	1.1	1.1	1.2
Bank Deposits	1.1	2.4	2.9	2.8	3.0
3. Inactive Notice Deposits	1.5	2.4	2.9	3.1	3.4
4. Total (1) + (2) + (3)	5.7	15.1	15.3	15.0	15.1
5. Total (4) as a Per Cent of Gross National Product (per cent)	102	129	120	112	100

a) Excluding holdings by the chartered banks and life insurance companies but including small holdings of other types of financial institutions, investment dealers and some net purchases by foreigners.
Source: Data supplied by the Bank of Canada.

Thus the sum of these three forms of liquid assets, Dominion government bonds, inactive notice deposits and money supply, after rising to 129 per cent of Gross National Product in 1945 had, by the end of 1948, fallen back to about the same ratio that existed in 1939.

Account must also be taken of the high level of earnings of corporations and the large proportion of these earnings which has been retained in the form of undistributed profits. About 60 per cent of corporate profits after taxes have been retained by corporations during the past few years as compared with 44 per cent in 1939. In 1947, corporate undistributed profits plus depreciation allowances were sufficient to finance over one-half of the total private investment in plant, equipment, housing and inventories. For investment made by corporations alone, the proportion financed from these two sources is believed to have been substantially higher than this, but no exact estimates are available.

Where business firms were unable to finance capital expenditure out of their own financial resources they found conditions for borrowing in the first post-war years, on the whole, favourable. Not only were the chartered banks willing to lend for business purposes, but the low interest rate policy followed by the financial authorities made it possible to obtain funds on what must be regarded as favourable terms. Only in the stock market have conditions discouraged the raising of funds.

Some firming of interest rates occurred early in 1948 and this was coupled with a deliberate policy on the part of the banks, encouraged by the Bank of Canada, of limiting the extension of new loans. Though these deterrents have not prevented investment expenditures for 1948 from reaching their highest level on record, further expansion becomes increasingly difficult. Some data on interest rates and current loans of the chartered banks are given in the following table.

TABLE 28
SELECTED CREDIT AND INTEREST INDICATORS, CANADA,
SELECTED YEARS, 1939-1948
(average month-end figures)

Item	1939	1945	1946	1947	1948
Current Public Loans in Canada by Chartered Banks, (millions of dollars)	855	1,100	1,223	1,603	1,935
Dominion of Canada Bonds, Payable in Canada only, Theoretical 15-year Bond Yield, (per cent)	3.16	2.93	2.61	2.57	2.92

Source: Data supplied by the Bank of Canada.

Another notable feature of the recent investment boom has been its almost complete reliance on domestic financing. This represents a contrast with past Canadian experience. In the 1896-1913 period of economic expansion, the volume of investment was financed to a large extent by

substantial capital inflow directed particularly to the settlement and development of western Canada. In this period international capital movements, particularly from Great Britain, were the major source for financing economic development in Canada. During the late 'twenties the amount financed by international capital movement was not as important as in the earlier investment boom but still represented a significant portion of capital development.

While both the backlog of demand for capital goods and the funds available to finance these demands provide important explanations of the volume of investment expenditures, perhaps the most vital factor is the attitude of business men or individuals themselves. The business man's attitude towards investment is based on his appraisal of the economic outlook in general and the prospects for his firm in particular. In the final analysis it is the degree of business optimism which largely determines the course of private investment. It may be concluded from their behaviour that, throughout the post-war period, business men have held optimistic views of the future of the Canadian economy.

Private investment in housing is determined largely by the decisions of the individual consumer and here, too, demand has been keen. The pressing need for shelter seem to have provided incentives to build which have outweighed the deterrent effects of high construction costs and the risks which would surround a mortgagee in a possible subsequent period of falling prices and incomes.

THE ADJUSTMENT OF SUPPLY TO INCREASED DEMAND¹

Under the impact of these post-war investment demands there has been a sharp expansion in the production of construction materials, in the supply of machinery and equipment and in the size of the construction industry itself. A large volume of imports from the United States, particularly in the field of machinery and equipment, also helped to meet Canada's rapidly expanding post-war demands. These expanded supplies were obtained only at the cost of a substantial rise in prices and, by mid-1948, investment costs were about twice those of 1939. Construction costs have risen between 107 and 117 per cent and machinery and equipment costs are up a little more than 80 per cent. Despite these price advances demand has continued to exceed supply in almost all lines of capital goods and building material.

Let us look at each of these developments in turn, beginning with the supply of basic materials.

Basic Materials

For a number of basic raw materials used by the capital goods industry, Canada is an exporter on a substantial scale and, for these, production during the post-war period was far in excess of domestic demand. Thus in

¹The following sections are based on official statistics supplemented by special information obtained from various government departments.

1947 Canada exported 50 per cent or more of her output of lumber, asbestos, gypsum, copper, lead, zinc and nickel. Export controls continuing after the end of the war helped to keep sufficient quantities of basic materials at home to meet the most pressing domestic needs in the face of urgent foreign demands. Production of all these items increased substantially between 1939 and 1948 except in copper and lead.

In the case of four other primary materials, iron ore, coal, coke and steel, Canada depends on imports for a substantial portion of the total supply. Imports of coal and iron ore are about twice current domestic production while imports of steel mill forms in 1947 made up about 31 per cent of our total supply and imports of coke about 14 per cent. The increase in the import prices of each of these commodities has contributed to the rise in Canadian construction costs.

Steel is the only one of the above materials where Canada seems to face the prospect of a major continuing shortage. Canada's output of basic steel has doubled since 1939 and is currently about 3.2 million tons a year, equivalent to the peak war level of 1942. In spite of this significant increase in output which, in 1948, was supplemented by over 1.1 million tons of imports, demand has continued to exceed supplies. In 1949, with a reduction in imports from the United States, and a new demand on steel to provide for a military preparedness program, this shortage may become even more acute. Since steel is a basic material for a wide range of capital goods, this shortage can be expected to limit expansion both in the investment program and in the production of a number of durable consumer goods.

Construction Labour

A rapid increase in the construction labour force was one of the important factors which made possible a large expansion of the volume of construction. This increase occurred in two waves. The first was the return of veterans formerly in construction occupations and the entry of those who had learned a construction trade in the armed forces. Most of these men were absorbed into the construction labour force between 1945 and 1946, with the result that the number of employees in this industry, including independent tradesmen, rose by 56,000 in one year. In the second full post-war year, this source was reduced to a trickle, but veterans who were undergoing construction training, war workers formerly working in construction jobs, and an increase of immigrant construction workers, were sufficient to raise the labour force in 1947 by 24,000 over the 1946 level. The second wave came in 1948, when 41,000 men joined the construction labour force. They came from greater numbers of young apprentices who had completed their training, a trebling of immigrant construction workers, and, for the most part, a shift of manual labourers from lower-paying industries to the construction industry where wages were considered good and take-home pay was increased by overtime and special holiday rates. For 1948 as a whole, the available labour force averaged over 300,000, with a variation of about 100,000 between the peak and low point for the year. Many men would be working in other industries than construction in the

off-season but would return to construction during the spring to autumn seasons. Data on employment and unemployment in the industry are given in the following table.

TABLE 29

EMPLOYMENT AND UNEMPLOYMENT IN THE CONSTRUCTION INDUSTRY,
CANADA, 1945-1948
(annual averages)

Year	Employed	Unemployed	Total Labour Force
1945	171,000	13,000	184,000
1946	227,000	13,000	240,000
1947	252,000	12,000	264,000
1948	291,000	14,000	305,000

Source: Dominion Bureau of Statistics, Ottawa.

In over-all terms, the construction labour force increased by two-thirds between 1945 and 1948. But the increase in the supply of tradesmen was uneven, with the result that during 1948 shortages of skilled workers in some trades and certain areas persisted, with surpluses in other trades and different localities. In some measure the rapid increase in the size of the labour force was made possible by the entry of a large number of semi-skilled and unskilled men into the field.

Building Materials

Most of Canada's building materials are produced from Canadian raw materials and are manufactured in Canadian plants. The industry is closely geared to the domestic market and, with a few exceptions, is not either an important importer or exporter. The only major building material for which Canada depends almost entirely on imports is window glass, which is brought in mainly from the United Kingdom, United States, Belgium and Czechoslovakia. Except for structural steel, imports of other items are insignificant or non-existent. The volume of construction undertaken in the post-war period was, therefore, largely dependent on how rapidly the domestic building material industries could expand to meet the orders waiting to be filled.

When the war ended, the building materials industries were in a much stronger position than at the start of the war. Many of the industries had expanded to produce building materials for war plants and military installations. As these orders declined after the peak of the industrial war effort of 1943, favourable military events and decreasing war production orders in 1944 made it possible for these industries to plan and prepare for peacetime production for about a year to a year and a half before V-J Day. As a result, the building materials industries found themselves in a position to turn out a considerably larger volume of building products in

1945 than in 1939. Data on these increases in production for the period from 1939 to 1945 and for 1945 to 1948 are given in the following table.

TABLE 30
CHANGES IN THE PRODUCTION OF SELECTED BUILDING MATERIALS,
CANADA, 1939-1948
(per cent)

Item	1939 to 1945	1945 to 1948 ^a	1939 to 1948 ^a
Lumber	+ 13.5	+ 17.0	+ 33.0
Cement	+ 36.7	+ 69.5	+131.6
Building Brick	+ 18.2	+ 64.4	+ 94.3
Structural Tile	+ 6.2	+ 94.5	+106.5
Rock Wool Batts	+278.5	+161.9	+891.3
Bulk Rock Wool	+200.0	+116.7	+550.0
Gypsum Wallboard	+ 71.4	+ 84.6	+216.4
Gypsum Plaster	- 4.0	+152.4	+142.4
Asphalt Shingles	+189.9	+ 39.7	+304.9
Smooth and Mineral-Surfaced Rolls	+ 84.6	+ 41.7	+161.5
Cast Iron Soil Pipe and Fittings	+ 12.1	+ 89.2	+112.1
Cast Iron Water Pipe and Fittings	+ 38.7	+ 52.5	+111.5
Steel Pipe and Fittings	+ 53.9	- 10.3	+ 38.1
Furnaces, Warm Air and Heating Boilers	+ 23.0	+ 53.7	+ 89.4
Cast Iron Radiators	+ 44.1	+ 11.4	+ 60.5
Electric Water Heaters	+148.7	+ 30.2	+223.9
Hot Water Storage Tanks (Range Boilers)	+ 33.1	+ 37.0	+ 82.2
Paints, Varnishes and Lacquers ^b	+ 48.4	- 4.9	+ 41.1
Wire Nails and Spikes	+ 5.3	+ 11.4	+ 17.3
Builders' Hardware ^b	+ 64.0 ^c	+ 26.8 ^c	+107.0 ^c
Rigid Insulating Board	+ 67.9	+ 37.6	+131.2

a) Estimated.

b) Deflated series.

c) Data used for 1945 and 1948 are factory sales.

Source: Dominion Bureau of Statistics, Ottawa.

Great as the increases of output were in terms of pre-war measurements, they were inadequate to meet the large demand for building materials facing the industry in the post-war period. To cope with this demand, the industry expanded both its plants and its labour force. Between 1945, and 1947, the industry more than doubled its annual capital expenditures, and by 1948, the industry was spending at the rate of three times the outlay made in 1945. The labour force of the building materials industry increased steadily. From 84,000 employed in 1946, the working force was 98,000 in 1947, an increase of 16 per cent. In 1948, employment in these industries was well over the 100,000 mark, a further increase of about 10 per cent. This large expansion began to yield results in 1947 and by 1948, when peak output had been reached, surpluses appeared in a few lines.

Although for most building materials, imports added little to the over-all supply, the proximity of the great industrial potential of the United States made it possible for Canadian consumers of building materials to obtain an increased supply of selected items at times when domestic shortages were particularly pressing. This frequently meant that projects which had been held up, say because of shortages of nails or gypsum plaster, could be completed much sooner than would have been possible had

the building material user waited his turn for domestic supplies. This increased buying abroad of building materials which were in short supply in Canada, was of particular significance in 1946 and 1947, and helped overcome some of the construction industry's worst bottlenecks.

Despite these substantial gains, the demand for building materials in the post-war period has consistently exceeded the supply. Early in 1948, supply had caught up with demand in a few lines, but, at the end of the year, there were still many shortages and for the construction industry as a whole, the supply of most items represented an important limiting factor on the volume of work that was undertaken. Some of the items for which the shortage at the end of 1948 was still severe were plumbing equipment and fixtures, range boilers, galvanized and other pipe, soil pipe, cement, nails, wallboard and lath, furnaces and flooring. Many of the larger construction firms are currently working at or near capacity and have orders on hand which will keep them at work for a year or more.

More than one-quarter of the capital expenditures currently made in Canada on machinery and equipment are made on imports. In addition Canada's own machinery industry uses a substantial amount of imported materials, parts and supplies.

The demand for foreign produced machinery and equipment varies greatly, depending on the type of investment projects. A study of the machinery and equipment purchases of 23 groups of manufacturing industries showed that 13 groups depended on foreign manufactured machinery and equipment to the extent of 25 to 50 per cent of their total outlay. Only in six industrial groups was the proportion less than 25 per cent. In the remaining four groups the proportion exceeded 50 per cent.

Imports of machinery and equipment from abroad amounted to some \$360 million in 1947, the highest on record for any peacetime period. These imports were two and a half times the value or almost twice the volume of 1929, and five times the value or two and a half times the volume of 1939. From 1945, to 1947, imports increased at the rate of about 40 per cent per annum and were mainly from the United States.

TABLE 31

IMPORTS OF FOREIGN COMPLETED MACHINERY AND EQUIPMENT,
CURRENT AND CONSTANT DOLLARS, CANADA,
SELECTED YEARS, 1929-1948

(millions of dollars)

Year	Current Dollars	Constant Dollars
1929	132	128
1933	19	20
1939	77	77
1945	167	124
1946	235	166
1947	360	223
1948	370	210

Source: Economic Research Branch, Department of Reconstruction and Supply.

In the three years following the end of the war Canada's own machinery and equipment industry, readjusted to the growing peacetime demand of Canadian industry, turned out an increasing volume of machinery and equipment, with most of the increases achieved going into domestic investment. As a result of this shift towards greater dependence on domestic production, the ratio of imports of foreign produced machinery and equipment, which had been 35 per cent in 1946, and 33 per cent in 1947, was down to about 27 per cent in 1948.

TABLE 32

PRODUCTION OF SELECTED MACHINERY AND EQUIPMENT INDUSTRIES^a
CURRENT AND CONSTANT DOLLARS, CANADA,
SELECTED YEARS, 1929-1948
(millions of dollars)

Year	Current Dollars	Constant Dollars
1929	417.1	382.6
1933	119.4	120.3
1939	274.1	267.7
1945	859.5	645.7
1946	749.7	567.5
1947	962.4	622.7
1948	1,150.0	678.0

a) The principle of selection was to choose machinery and equipment industries concerned to a large extent in meeting domestic requirements for private capital expenditures. The industries covered include electrical appliances, machinery, railway rolling stock, sheet metal products, agricultural implements and other iron and steel products.

Source: Dominion Bureau of Statistics, Ottawa, and Economic Research Branch, Department of Reconstruction and Supply.

Price Increases in the Capital Goods Industry

The rapid expansion in the supply of capital goods under the impact of high level of investment demands has been accompanied by a sharp advance in prices. By mid-1948, wholesale prices of construction and building materials had risen 53 per cent since 1945, and were up 118 per cent over their level in 1939. At the same date wage rates in the construction industry were up about 31 per cent over 1945, and about 71 per cent over 1939. A weighted average of these two shows an increase in construction costs of about 43 per cent since 1945, and about 97 per cent since 1939. This, of course, makes no allowance for changes in the efficiency with which labour and materials are used or for variations in contractors' profits both of which are important factors in final costs. The effect of these two factors on construction costs is discussed below. Data on machinery and equipment prices are less reliable than in other fields, but some evidence suggests that costs here are up about 80 per cent over their 1939 level.

For building materials the amount of price rise has been subject to a good deal of variation as between different types of material. This is shown in the Table 33.

TABLE 33

INDEX NUMBERS OF WHOLESALE PRICES OF BUILDING AND
CONSTRUCTION MATERIALS, SELECTED YEARS, CANADA

(1939 = 100)

	1945	1946	1947	1948 (July)
Lumber	170.7	181.3	233.1	283.8
Paint Materials	125.0	130.9	186.3	211.3
Structural Steel Shapes	123.7	137.1	144.5	161.9
Wire Nails	100.0	115.5	129.7	142.7
Clay and Allied Products	121.3	130.0	147.7	154.2
Plaster	105.7	105.7	107.4	116.0
Building Stone	110.1	110.3	121.0	124.7
Cement	109.0	108.7	114.4	129.1
Total Building Materials	141.9	150.3	185.5	217.8

Source: Dominion Bureau of Statistics, Ottawa.

The sharpest advance in price was registered by lumber, up 184 per cent since 1939.¹ In contrast cement is up by only 29 per cent, building stone by 25 per cent, and plaster by 16 per cent over their 1939 levels. Structural steel, too, with a rise since 1939 of 62 per cent, has increased considerably less than the average of all prices. Thus the extent to which construction costs have risen may vary a good deal depending on the type of project undertaken. In a project where the major materials are steel and cement, the rise in cost has been a good deal less than for some other items, such as houses, which use a substantial proportion of lumber.

The increase in wage rates of the construction worker since 1939, 71 per cent, is considerably below the general average of 94 per cent. Earnings of construction workers, however, have risen more rapidly than wage rates would suggest, because of the fact that construction workers in times of high levels of employment increase their earnings by overtime and holiday work, with rates one and a half times to twice the prevailing rates. In addition, the fairly common practice during the war and immediate post-war period of paying skilled workman wages to semi- and unskilled construction workers contributed to the increase in the average annual earnings.

The increases in prices of building materials and wage rates of construction labour which have occurred since 1939 are of about the same magnitude as those that occurred during and after the first World War. Between 1913 and the middle of 1920, when prices turned downwards, wholesale prices of building materials rose by 115 per cent. This is slightly less than the increase of 118 per cent which occurred between 1939 and July, 1948. Wage rates of construction labour, however, were faster in their upward movement during and after the first World War (81 per cent) than during and after the second World War (71 per cent). By April, 1920, prices in the construction field had pretty much reached their

¹Cf. Chapter 11, Vol. III, The Lumber Industry.

peak and a downturn set in, slowly at first for the remainder of 1920, but more rapidly in 1921.

On a relative basis, building material prices have shifted upward since 1920 in comparison with the general level of prices. The index of wholesale prices of building material is now more than one-third higher than the peak reached in 1920 whereas the general index of wholesale prices is still below its previous high. The reverse is true of construction wage rates. In comparison with 1920 they have shown a somewhat smaller increase (61 per cent) than has the general index (81 per cent).

In explaining the reason for the price rises in this field it is necessary to discuss briefly the way in which purchasers have reacted to these price increases and the nature of the market for capital goods. Since most capital goods are expected to last over a long period of time the original cost should be an important consideration in determining the time of purchase. Business firms will be hesitant to buy at high prices if they expect construction costs to fall within a few years enabling their competitors to build at lower prices. Similarly, individuals will be hesitant to build new houses if they expect more favorable prices within a year or two. This consideration will be more important in large projects and projects which are expected to be in use for a long period of time. Notwithstanding this, investment demands have not only remained strong but have shown a tendency to increase in the face of rising construction costs and rising prices for machinery and equipment. There are several possible explanations for this. It may indicate a doubt that investment costs will fall sufficiently and in a short enough time to justify waiting. Building immediately has important advantages; the project will at once begin to earn an attractive rate of return. It will also enable the firm to maintain its competitive position in the field. In addition, most firms have found themselves able to finance their investments without too much difficulty. A study of our past history indicates that the majority of new investments are made in periods of prosperity (and are of course one important cause of the prosperity) when construction costs are relatively high rather than in periods of depression when costs are lower. This would seem to indicate that in the timing of investments, the degree of business optimism, the level of earnings, and the ease of financing have generally outweighed considerations of cost.

The competitive nature of the market which supplies capital goods varies a good deal. In some instances, the market is quite competitive. In others, one or two firms may have an almost complete monopoly (cement). Exports are extremely important in some cases (lumber) and imports in others (machinery). Again some commodities may be produced in a few areas and sold on a national market (electric motors) whereas for others transport costs may limit the supply to a relatively small area (bricks), leading frequently to local monopolies. In general, for most types of machinery and equipment there are only a few large suppliers, but competition in this field is increased by imports, chiefly from the United States. In 1948, imports of completed machinery and equipment formed about

27 per cent of Canada's investment in machinery and equipment. A similar domestic supply situation, that is, a few large producers for each commodity, exists for quite a large number of construction materials. Because steel is such an important material both in construction and for the machinery and equipment industry its price has an important effect on investment costs. Steel also is supplied by a relatively small number of producers both in Canada and the United States. The lumber industry in most areas is fairly competitive but is affected substantially by the export market.

This variation in the degree of competition in different sections of the market partially explains the extreme divergence in the amount of price rise shown by different construction materials. There is some evidence that industries where some degree of monopoly exists have maintained more rigid price policies, limiting the amount of price advance in times of prosperity and the amount of price decline during a period of depression.

The eight per cent sales tax on machinery and building materials was removed in the fall of 1945 so that the amount of price rise to the producer actually includes this eight per cent in addition to the rise shown by the official index. Price control is still retained on a number of types of steel and inter-company shipments have been subsidized in order to maintain maximum use of rolling mill capacity.¹

According to some sources, investment costs have also been increased by a decline in the efficiency of labour and management on the construction project and by an increase in contractors' profits. Quantitatively the effects are difficult to assess. As an indication of the order of magnitude, a special study undertaken in early 1948 found that these factors had added from 10 to 20 per cent to construction costs of housing.²

Adding the above-mentioned allowance for extra costs to increases in prices of building materials and construction wage rates, it is estimated that total construction costs were up between 107 and 117 per cent by mid-1948 as compared with 1939. This increase is almost as high as the construction cost increases which occurred in the United States. According to the Department of Commerce composite construction cost index, by July, 1948, American costs were 116 per cent above the average for 1939. Similarly, construction costs in the United Kingdom in 1948 appeared to be considerably more than twice the costs in 1939.

THE EFFECTS OF INVESTMENT EXPENDITURES ON THE PRICE LEVEL

Investment expenditures, in addition to bidding up prices in the capital goods industry, may effect prices indirectly throughout the economy. This is likely to occur only when the economy's resources are fully or almost fully employed. At such a time, if investment expenditures exceed the amount which all groups in the economy are prepared to save at that level of prices, the result will be an upward pressure on prices, but no one can state categorically whether the excess demand arises from an excess of investment or a deficiency of saving.

¹Cf. Chapter 3, II, Price Control and Rationing.

²See Housing in Canada, July, 1948. Central Mortgage and Housing Corporation, Ottawa, p. 22.

Statistics on the composition of savings and investment provide some data on this question. The following tables show the various sources of savings in Canada and uses to which these have been put in the last few years.

TABLE 34

A. SOURCES OF SAVING, CANADA, SELECTED YEARS, 1939-1947^a

(millions of dollars)

Item	1939	1944	1945	1946	1947 ^b
Personal Saving	320	1,738	1,368	961	605
Depreciation Allowance	582	863	785	846	928
Undistributed Corporation Profits	219	334	386	411	608
Government Surplus	—	—	—	—	932
Undistributed Wheat Board Surplus	—	— 19	64	37	57
Inventory Revaluation Adjustment ^c	— 56	— 2	— 2	— 8	— 18
Residual Error of Estimate	— 10	+189	+170	— 9	—106
Total	1,055	3,103	2,771	2,238	3,006

B. DISPOSITION OF SAVING, CANADA, SELECTED YEARS, 1939-1947^a

(millions of dollars)

Item	1939	1944	1945	1946	1947 ^b
Gross Home Investment	881	674	565	1,788	2,884
Net Foreign Investment	123	27	683	326	17
Government Deficit	42	2,591	1,694	116	—
Residual Error of Estimate	9	189	171	8	105
Total	1,055	3,103	2,771	2,238	3,006

a) In this table gross home investment includes all private investment in plant, equipment, housing and inventories. Net foreign investment represents the excess of privately financed exports of goods and services over imports. Government deficit or surplus is the difference between government revenues and expenditures (on the basis used in the national accounts). Government deficit is treated as a use of saving while the government saving has been regarded as one form of saving. The residual error of estimate arises from the independent estimation of the same total with two different methods and reflects the imperfections in the basic statistical materials.

b) Preliminary.

c) This adjustment has been made only to grain held in commercial channels.

Source: Dominion Bureau of Statistics, Ottawa.

During the period 1939 to 1946, individuals and business saved more than was used domestically for investment purposes. The balance was absorbed by an increase in net foreign investment and by government deficits. The government deficits helped to finance large military expenditures during the war and reconversion and rehabilitation expenditures during the immediate post-war period. By 1947, however, gross home investment had replaced government expenditures as the major demand for savings. The government deficit had turned into a surplus and net foreign investment ceased. The prime source for investment was business savings in undistributed corporate profits and depreciation allowances, while personal savings contributed only about one-fifth of the total. There is reason to believe that this situation has continued into 1948.¹

¹Cf. Chapter 6, Fiscal and Monetary Policy.

GOVERNMENT POLICIES AND INVESTMENT

What attitude has been taken and what policies have been followed by the Dominion government with respect to investment during the post-war period?

The principles underlying its policies find their most complete expression in two documents: the White Paper on "Employment and Income with Special Reference to the Initial Period of Reconstruction (April, 1945) and the "Proposals of the Government of Canada to the Provinces on the occasion of the Dominion-Provincial Conference on Reconstruction" (August, 1945).

According to these documents one of the government's primary objectives has been to maintain the high levels of production, income, and employment achieved during the war years. This was to be accomplished within the framework of a "free enterprise" society. Recognizing the fluctuations that have taken place in the Canadian economy during the past, the government's view was that the best way to achieve this would be through offsetting or compensating for the forces that make for extremes. The initial post-war problem was to replace the large government expenditures upon which the wartime economy was based. To this end, the government's policy was directed toward the expansion and stabilization of expenditures having their source in exports, private investment and public investment.

As part of this program, the Dominion government stated that it was its intention to use public investment to help in compensating for fluctuations in private investment. It was the declared intention of the government to institute a system of managing its capital expenditures so that they would contribute to the maximum to the improvement and stabilization of employment and income.

It was recognized that the Dominion government was only one contributor to the total public investment expenditures made in Canada. Co-operation between the Dominion and provinces was therefore considered essential to produce a public investment program of sufficient size to be used as an instrument for moderating cyclical fluctuations. However, a co-ordinated public investment program has not yet been developed.

Volume of Public Investment

Since the end of the war the stated policy of the Dominion government has been to defer postponable public works projects. It has also expressed the hope that a similar policy would be followed by other levels of government.¹

¹"In the case of the Dominion government, we have deliberately endeavoured to keep this increase (i.e. in post-war expenditures on supplies and services) to the minimum required by urgent post-war projects, and in particular we have pruned our public works and other construction programs drastically in order to avoid demands on building materials and building labour urgently required for housing. I hope that provinces and municipalities will find themselves able to follow a similar policy." Minister of Finance House of Commons Debates, June 27, 1946.

Actual expenditures by various levels of government are shown in the following table for a series of years.

TABLE 35
DIRECT GOVERNMENT EXPENDITURES* ON NEW DURABLE
PHYSICAL ASSETS, CURRENT AND CONSTANT DOLLARS,
CANADA, SELECTED YEARS, 1929-1948
(millions of dollars)

Year	Dominion Government	Provincial Governments	Municipal Governments	All Governments
Current Dollars				
1929	53	54	47	154
1933	23	24	33	80
1939	34	92	39	165
1945	141	48	47	236
1946	36	89	69	194
1947	57	143	84	284
1948 ^b	57	151	95	303
Constant Dollars				
1929	48	48	42	138
1933	25	27	36	88
1939	34	92	39	165
1945	105	36	35	176
1946	25	61	48	134
1947	35	84	48	168
1948 ^b	30	77	49	156

a) Excluding government-operated institutions and government-built housing.

b) Preliminary estimate.

Source: Economic Research Branch, Department of Reconstruction and Supply.

These data indicate that investment expenditures of municipal and provincial governments have expanded somewhat more than those of the Dominion government during the post-war period. To some extent this reflects a high degree of urgency for such projects as new hospitals and schools. Even so, as already pointed out, capital expenditures by governments have not expanded at anything like the rate of private capital expenditures. Eliminating the price rise, the physical quantity of new durable assets acquired by governments was probably lower in 1948 than in 1939.

Policies Related to Private Investment

We turn now to the steps taken by the Dominion government to influence the level of private investment in the post-war period.

To begin with, steps were taken to facilitate the liquidation of war-time obligations and the war-created industrial structure through cancellation and settlement of outstanding war contracts, renegotiation of completed war contracts, disposal of government-owned war materials, stores, plant and equipment in excess of peacetime needs, and the winding up or reconstitution of Crown companies established during the war.

A number of direct fiscal incentives were adopted to encourage industrial expansion pending the revision of the over-all restrictive wartime tax structure. Such fiscal aids included the privilege of writing back or carrying forward losses to allow business firms to approach more nearly to an average profit basis for taxation purposes; the granting of a flat tax rate for the first year of operation of newly-established companies, thus exempting them in part from the full taxation load under the Excess Profits Tax Act; tax concessions to encourage the exploration and drilling for oil and the exploration and prospecting for base metals and strategic minerals; permission to write off current expenditures for research in the year of expenditure and capital expenditures over a three-year period; removal of indirect taxes on machinery and building materials; and provision for special depreciation on new investment in industrial plant and equipment of a type that would speed up the process of industrial adaptation in the transition period.

The high level of wartime taxation was gradually reduced to provide incentive for increased production. The low interest rate policy was continued.

At the same time, two other measures taken by the government in the first post-war year were designed to exercise a restraining influence on the effects of increased investment demands. The transfer of government-owned war plants to Canadian industry for peacetime use meant that the industries whose needs were met did not have to build new or expand existing plants. The sale to Canadian industry of large supplies of machinery and equipment accumulated during the war meant that orders for new machinery and equipment were lower than they otherwise would have been.

Before long it became apparent that reconversion was proceeding more rapidly and with less unemployment than had been expected. Investment expenditures increased rapidly and, together with exports and consumer expenditures, easily took up the slack caused by the dropping off in government war expenditures.

Consequently, the federal authorities took some measures designed to restrain the level of private investment expenditures. Interest rates were increased slightly early in 1948 although this was not expected to have more than mildly restraining influence on the high level of capital expenditures. The Bank of Canada encouraged the chartered banks to restrain loans for capital purposes.¹

All projects on which a claim for special depreciation noted above was to be made must be completed by March, 1949. Also the steps taken under the Emergency Exchange Conservation Act had the incidental effect of restricting the import of capital goods and probably tended to check the volume of investment. Preliminary evidence indicates that imports of capital goods during 1948 under this Act have been kept at about the 1947 level in dollar terms. Because of the increase in prices since 1947, this indicates some decline in the volume of these imports.

¹Cf. Chapter 6, Fiscal and Monetary Policy.

The Special Case of Housing

The Dominion government's housing policy deserves special consideration for it differed in many respects from its policy towards other forms of both private and public investment.

In the first place, it engaged in a relatively large-scale program of public housing. This took several forms. During wartime about 19,000 dwellings were built to rent to munitions workers by the Crown Company, Wartime Housing Limited. After the war direct building was continued, the primary purpose being the provision of low-rental housing for veterans and their families. Since 1945, an additional 19,000 veterans' houses have been built under this program, involving expenditures in the neighborhood of \$100 million. The venture of the insurance companies into the building field through Housing Enterprises Limited, although undertaken initially by private enterprise, may be included in the federal housing building program for it was largely financed by government funds and was eventually taken over. This covered the erection of over 3,300 dwellings. In addition the Dominion government has been building houses for rental to married service personnel and has participated in a program to provide emergency shelter.

Financial assistance also took several forms. The Veterans' Land Act included assistance for veterans who desired to build houses on small holdings. Under the National Housing Act, loans and partial guarantees were provided for ownership and rental housing, and a form of rental insurance was offered to encourage the building of rental housing projects. Special depreciation for new rental housing falls into the same category.^{1,2}

SUMMARY AND CONCLUSIONS

In the light of the preceding analysis how much responsibility can be attributed to domestic investment expenditures for the recent rise in prices in Canada? Clearly enough, these expenditures were very large in both dollar amounts and physical terms, exceeding any previous period in our history. Yet they absorbed about the same share of the available goods and services as in 1929 when investment went forward without any important rise in the general price level. In fact, the volume of investment in plant, equipment and housing absorbed a slightly smaller proportion.

The only firm conclusion that can be reached therefore is that domestic investment expenditures plus other expenditures (consumption and exports) within Canada were too large in total to be made without upward pressure on the price level. It was a case of trying to do too much of too many things at one time. Moreover, even if competing demands had been on a smaller scale, there would have been sharp increases in construction costs and prices of capital goods generally because of the

¹A description of the various housing programs under way, can be obtained from the Annual Reports of the Central Mortgage and Housing Corporation to the Minister of Reconstruction and Supply for 1946 and 1947. A statistical measurement of the progress made so far is contained in Housing in Canada, July, 1948, and preceding issues.

²Various provincial governments also provided financial assistance for housing.

impact of the greatly increased demands upon a capital goods industry that was not equipped at the end of the war to handle with its previous efficiency such a large volume of business.

On the whole, investment expenditures by government, apart from housing, were not responsible for much of the increased demand. This is indicated most clearly by the fact that these expenditures in the post-war period have not been larger in physical terms than in the years immediately preceding the outbreak of war. The Dominion government appears to have adhered fairly well to its stated policy of deferring postponable projects. Provincial and municipal expenditures on public works have been relatively larger but we cannot say that they have been excessive considering the urgency of some of the demands such as those for schools, hospitals, etc.

The chief elements in the investment boom were therefore the high level of business investment expenditures and housing construction. To a significant extent the Dominion government itself is responsible by its own housing program and its priority and financial assistance to private builders, supplemented by some provincial help, for the large volume of new housing. Without this government intervention it is unlikely that as large a proportion of labour, materials and equipment would have been devoted to house building during the period since the end of the war. However, we doubt whether any other aspect of government policy in the post-war period had greater public support.

Business investment in new plant and equipment was high, primarily because of the desire to make good the deficiencies which accumulated during the pre-war depression and the period of the war and to enlarge productive capacity to meet the anticipated high level of post-war demand for consumers goods and exports, and, to some extent, it would appear, also because financial conditions were favourable. There was a coincidence of desire to expand, availability of the necessary funds and some positive encouragement from the authorities.

That there should have been a large scale expansion in the productive capacity of the country can hardly be questioned. The crucial point is whether or not such a large program should have been concentrated into such a short period when other demands were competing for resources. The objective for which we should aim is not only a high standard of living but a reasonable degree of stability. We shall not presume to say that recent investment expenditures have been on too high a level, for only time will tell if this is so. It is reasonable to assume, however, that there seems to have been a good deal more concern about a possible deficiency of demand in the post-war period than of possible excess of demand. In Canada, as in the United States, to quote Professor Jacob Viner, "recollections of the Great Depression of the 1930's and of the lesser and shorter depression after the first World War, moreover, cast a spell over all thinking in this field, and breed caution lest in ending a prosperous inflation, the prosperity also should be ended."¹

¹Jacob Viner, "Can We Check Inflation?" *The Yale Review*, December, 1947, No. 2, p. 208.

Finally, while it is evident that our desire to make investment expenditures on a large scale at the same time as we were bidding for resources for other purposes has contributed to rising prices, it is very difficult to determine how important this factor has been in relation to other price raising factors that were at work in the economy. As we have pointed out elsewhere, strong upward pressures were placed on Canadian prices by the rapid increases in prices in markets to which we sell and from which we buy. Canadian prices would have responded to these external pressures in any event. Probably the most that can be said is that if investment expenditures had been on a smaller scale, external influences would not have spread through the economy as rapidly as they did and construction costs would not have risen so high in relation to prices generally. Furthermore, external influences not only affected prices in Canada through imports and exports, but played their part in the generation of the investment boom. True, there was no great influx of capital such as occurred early in the century and again in the twenties; on the contrary, as we have noted, this investment boom has been financed almost wholly from Canadian sources. Nonetheless, external demands for Canadian goods, new methods and ideas originating abroad and the example and effect of the United States boom have played no small part in spurring Canadian investment.

6

FISCAL AND MONETARY POLICY

WE turn from a consideration of direct controls to the other major type of action through which the government was in a position to influence economic activity and the level of prices, namely, fiscal and monetary action. But first a few words of explanation.

At the outset it may be well to clarify one general point which could be the cause of some misunderstanding if it is not dealt with specifically. Government spending, taxing, borrowing and debt repayment can be looked at from two points of view. Primarily governments spend money to provide services that the public wants. They tax to raise the necessary revenues and to repay debt. They borrow, as any individual or corporation borrows, to raise capital for projects of a durable character or to meet temporary or extraordinary expenses such as arise in wartime. But these government operations also have effects on economic activity. We shall be concerned more especially with these economic effects. Nevertheless, while most of our discussion will be along these lines, it should not be concluded that we are unaware of the primary purpose of spending, taxing, borrowing and debt repayment. Whatever other effects it may have, a tax is primarily a means of paying government expenses. Equally, a budget surplus arising from an excess of revenues over expenditures, while it will be examined in terms of its effect as an anti-inflationary measure, is after all simply a means of reducing the public debt and thereby reducing future interest charges on the public exchequer.

Fiscal action is concerned with the spending, taxing and borrowing activities of the government. Monetary action is concerned with the activities of the government and the central bank, usually referred to as the monetary authorities, designed to influence the total supply of currency and bank deposits in the hands of the public.

The government buys goods and services; for example, it buys steel for public works and it pays salaries to civil servants. It also invests; that is, it lends money to individuals, business men and other governments which is repayable at some future time but which enables the borrower to spend now. This is not, in the Canadian budgetary sense, government spending, but it has much the same economic effects. The government also makes "transfer" payments such as family allowances and payments to the province under the taxation agreements. These add to the spendable income of the recipients. On the other hand, the government collects taxes.

Government spending, therefore, adds directly to the total demand for goods and services or puts money into the hands of others which may be spent. Government taxing, on the other hand, while its primary purpose is to raise revenues to pay government expenses, incidentally reduces disposable incomes and money holdings out of which individuals and

businesses can spend. There are other effects which we shall leave for later discussion.

To the extent that tax receipts and other revenues fall short of total expenditure, including investment, the government has to borrow. It can borrow so as to transfer existing money from the general public to the government, for example, by the sale to John Jones of a government bond paid for by a cheque drawn on his bank account. Or, it may borrow from the chartered banks or the Bank of Canada in such a way as to add to the total money supply, for example, by the creation of a new deposit in favour of the government rather than the transfer of an existing deposit from one account to another.

To the extent that tax receipts and other revenues exceed total expenditure, including investment, the government has received more money from the public than it has spent. The initial effect of a surplus besides reducing the public debt is, therefore, to restrain public spending. But what is done with the surplus may also have an effect. For example, repayment of publicly-held debt gives the former holders of the redeemed bonds more cash which they can spend themselves or turn over to others for spending. Repayment of debt held by the chartered banks simply results in a simultaneous reduction in their assets (investments) and their liabilities (deposits). If the surplus is accumulated, that is, turned over to the Bank of Canada, it withdraws cash from the banking system just as would a sale of securities in open market operations (see below).

How the government finances its operations and manages its debt therefore affects the total money supply, that is, the amount of currency and active bank deposits held by the public. Apart from this, however, the financial authorities are in a position to influence the money supply by exerting a general influence upon the supply, cost and availability of cash reserves to the chartered banks. This, as has been said, is referred to as monetary action.

The Canadian chartered banks, like banks everywhere, keep a certain amount of cash on hand to meet the demands of their depositors; they are required by law to do so but the customary reserve ratio (that is the ratio of cash to deposits) is higher than the legal minimum. The volume of money, most of which is in the form of bank deposits, is therefore directly related to the amount of the cash reserves of the banks. If the amount of cash were strictly limited there would be a point beyond which the money supply could not expand. In fact, however, the supply of cash can be increased. The chartered banks can obtain more by borrowing from the Bank of Canada, although transactions of this type have been rare. More cash will also become available to the system if the Bank of Canada buys securities on the market and conversely, of course, less will be available if it sells securities; these are known as "open market operations". It does not matter whether the Bank of Canada buys the securities directly from the chartered banks or from other sellers; in either case the additional cash ultimately gets into the banking system.

The instruments of monetary policy are therefore the so-called re-discount rate, at which the Bank of Canada is prepared to lend to the chartered banks, and the buying and selling of government bonds. Negligible use has been made of rediscounting facilities, so that for all practical purposes monetary policy finds its expression in open market operations.

Inflation is always accompanied by, and is sometimes caused by, an increase either in the supply of money or in the rate at which the existing supply of money is being spent. Through monetary action, the monetary authorities can operate on the banks to restrain an increase in the supply of money, if not the rate of spending, either by withdrawing cash from the system through selling government bonds or by refusing to buy bonds when attempts are made to sell them on the market. The effect of either action when the public does not desire to increase its holdings of government bonds is a drop in the price of government bonds and, in due course, of other forms of interest-paying securities or, as it is usually expressed, a rise in the rate of interest.

With these few words of explanation, we turn to the history of fiscal and monetary policy during the period under review.

PRE-WAR POSITION

Gradual recovery from the great depression was accompanied and assisted in Canada, as in many other countries, by monetary measures in the form of low interest rates and a rising money supply. This constituted the traditional approach of many years standing to the problems of depression, but as the Minister of Finance said in April, 1939:

"While we have been endeavouring to use monetary policy to the fullest possible extent as an instrument of economic recovery, we have always realized that monetary policy alone was not sufficient to solve our problems under present world conditions—that it is a tonic but not a cure-all."

Additional measures were considered necessary to restore a high level of capital investment and employment, and with these in mind, there was a growing consciousness of the influence of tax measures on business conditions. Income tax exemptions were given for new metalliferous mines, and there was a temporary extension of the principle to all industry by which it was provided that 10 per cent of the expenditures on new plant and equipment during the following fiscal year might be used as a credit against income tax over the following three years.

With the outbreak of war it became the judgment of the government that the primary problem would before long become a shortage rather than a surplus of manpower and productive facilities. Concern with the difficulty of maintaining a high level of employment did not re-emerge in official statements until towards the end of the war. When it did, as in the White Paper on Employment and Income of April, 1945, and the federal proposals to the provinces in August, 1945, it was apparent that

wartime developments had strengthened the government's belief in the usefulness of fiscal policy, if not monetary policy (see below) for dealing with the problems of boom or depression. In addition to the developing body of knowledge on the uses of fiscal action, however, experience had shown that the new fiscal tools had themselves important limitations and required to be supplemented in certain circumstances by more direct measures.

WARTIME DEVELOPMENTS IN GENERAL

Tracing the development of the war economy in physical terms, it is evident that initially there was great dependence on fiscal and monetary measures operating within the framework of the price system. While it would have been theoretically possible to use taxation alone to reduce personal incomes to the level which corresponds to the supply of consumer goods available, it was pointed out in the budget speech of September 12, 1939, that there were practical objections:

"Diversion . . . by a 100 per cent taxation or pay-as-you-go policy would seem at first sight to represent the ideal policy of war finance; in principle it would appear to be the most logical, the most equitable . . . But, in the first place, this takes no account of the desire, indeed the necessity, of individuals making some savings to provide for a rainy day, and an effort to take so much in taxation that individual savings would be practically wiped out, would produce disorganization and public discontent. In the second place, realism compels us to admit that a pay-as-you-go policy has to take account of the psychological reactions to taxation. In other words, we must recognize that when diversion by means of taxation rather than borrowing is carried too far the average citizen begins to feel that there is no use in his working for any additional income and therefore he does not put his best effort into his work with the result that efficiency and production fall off. If we cannot maintain our production at maximum efficiency we may lose the war, and at least the real cost of the war will increase. It is by a reasonable balancing of these various considerations that we have to decide how much to tax and how much to borrow . . .

"It is with these fundamental considerations in mind that we have decided upon our policy of war finance. Because we believe it is the part of wisdom, we shall follow as far as may be practicable a pay-as-you-go policy."

The remaining funds required, after raising as much as was considered practicable through taxation, had to be obtained by borrowing in one form or another. Here the stated objective was to secure the largest possible amount through sales of securities to the public at large, leaving only the residual requirements to be obtained through borrowing from the banks.

War expenditure grew rapidly year by year up to 1944, (see Table 36) but fortunately it proved possible to uncover additional resources

TABLE 36
DOMINION GOVERNMENT: CASH REQUIREMENTS AND SOURCES OF FINANCING,^a
(millions of dollars)

CASH REQUIREMENTS	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949 ^b
War and Demobilization Cash Expenditure	118	752	1,340	3,724	4,574	4,158	3,623	1,249	634	522
War and Demobilization Advances and Domestic Investments	9	120	244	129	143	- 2	- 22	- 25	—	—
Foreign Governments	1	40	43	884	190	-38	-429	-261	-117	*
Other War Requirements	8	- 3	—	2	- 44	- 19	29	- 21	- 2	—
Total War Requirements	136	909	1,627	4,739	4,863	4,099	3,201	941	516	*
Non-War Cash Expenditure	534	447	490	589	661	750	1,056	1,270	1,451	1,670
Export Credits and Loan to U. K.	—	—	—	—	—	—	67	908	499	*
Loans to Foreign Exchange Control Board	—	325	400	-325	185	265	700	-680	-220	*
Other Non-War Advances and Investments	90	43	60	99	-129	233	116	96	116	*
Total Requirements	760	1,724	2,577	5,102	5,580	5,347	5,140	2,535	2,362	*
Sources of Financing										
Personal Income Tax	45	104	296	534	813	768	692	695	660	671
Corporation Income and Excess Profits Taxes	78	156	321	803	780	742	712	687	591	580
Other Direct Taxes	11	13	35	41	42	46	50	54	67	66
Indirect Taxes	334	506	709	759	956	818	822	1,022	1,134	1,064
Other Ordinary Revenue	67	77	93	118	136	147	161	161	174	193
Gross Ordinary Revenue in Cash	536	855	1,454	2,254	2,728	2,521	2,436	2,619	2,626	2,574
Less Refundable Portion of Personal Income and E. P. Taxes	—	—	—	- 70	- 155	- 219	- 72	- 30	—	—
Net Ordinary Revenue in Cash	536	855	1,454	2,184	2,573	2,302	2,363	2,589	2,626	2,574
Special Receipts and Credits	—	3	18	19	101	151	236	320	193	90
Miscellaneous Receipts and Credits	23	29	39	52	118	92	80	- 26	68	*
Receipts (+) or Repayment (-) of Refundable Taxes	—	—	—	70	155	219	72	- 84	- 34	- 297
Increase (+) or Decrease (-) in Other Debt	323	742	1,559	2,082	2,769	2,886	2,755	-302	-468	*
Decrease (+) or Increase (-) in Securities Investment a/c	—	- 12	- 30	8	- 150	- 151	184	- 125	- 410	*
Decrease (+) or Increase (-) in Can. Cash Balances	- 122	107	- 463	687	14	- 152	- 550	52	437	*
Total Sources of Financing	760	1,724	2,577	5,102	5,580	5,347	5,140	2,535	2,362	*

a) Compiled from the "Sources and Requirements for Cash" table given each year in the introductory section of the Dominion Public Accounts with the following adjustments:—
 (a) Reduction of sterling indebtedness is shown as a "decrease in other debt" rather than as a "net outlay on war assets."
 (b) Reduction of New York indebtedness is shown as a "decrease in other debt" rather than as a "net outlay on non-war assets."
 (c) Changes in the Securities Investment Account are shown under "Sources of Financing" rather than under non-war advances and investments.
 b) Budget estimates. No official estimates or only incomplete estimates are available for the items marked with an asterisk. However, it seems likely that "other debt" will show a net increase in the 1948-1949 fiscal year.

of manpower and industrial potential each year and thus moderate the inflationary effects of the war and ease the strain on the civilian economy. In the early years of the war especially, the relative stability of United States prices and the availability of new raw materials and components from the United States were important.

The greatest additions to productive capacity came from absorption of large numbers of fully and partly unemployed workers and from additions to the labour force in response to patriotic appeals and rising wage rates. Credit expansion in the autumn of 1939, while at first sight inconsistent with accepted principles of war finance, did help to absorb unused capacity in the form of idle manpower and plant.

As wartime pressures and scarcities developed, it became necessary, in the government's judgment, to supplement fiscal and monetary measures, which operate within the framework of the market, by direct controls which regulated the production and allocation of certain goods and assisted in preserving stability of prices and costs.

Table 36 shows the year-by-year financial requirements of the government. Both requirements and sources of funds include important amounts which cannot be described as expenditures or revenue in the ordinary budget sense. Funds were required not only to provide for government cash expenditures for current war and non-war purposes but also for loans to crown companies, foreign governments, etc., which were being financed by the federal government. For the most part the use of these funds constituted a demand for goods and services, just as "expenditures" did, the principal difference being that there was an obligation to refund them to the federal treasury at some future time. The total of cash outlays as shown had to be matched by the withdrawal of purchasing power from the private sector of the economy by taxation and borrowing. However, because of the increase in production which took place, this process did not involve any appreciable net reduction in the use of resources by the civilian sector of the economy as a whole; it simply meant the foregoing of a possible increase.

It will be seen from the table that about half of the government's total requirements during wartime was met from taxation. This was as high a ratio as any other major belligerent managed to achieve.

WARTIME TAX POLICY IN BROAD OUTLINE

The tax policy which took form in the first two war budgets of September, 1939, and June, 1940, was pursued throughout the war with little deviation in principle. Most tax changes took the form either of the intensification of taxation to obtain more revenue, or of refinements designed to preserve equity as between taxpayers and to avoid impairment of the will to work. The stabilization program of the autumn of 1941, with the ceiling on prices and restrictions on salary and wage increases, altered to

some extent the framework within which tax policy operated. The price ceiling, particularly as it applied in the unrationed sector, removed the restraint on demand which rising prices otherwise would have provided and placed on taxation (and borrowing) more responsibility for restraining expenditure and protecting supplies. At the same time wage and salary control was linked to the cost-of-living index, and made it very difficult for the government to raise taxes such as the general sales tax, which would have increased the cost-of-living index. As an alternative it was decided to tax "luxury goods", which did not enter into the index, and to increase direct taxes. In turn, higher direct taxes, particularly as they affected corporate profits and larger personal incomes, were designed to help gain public support for the wage and salary restriction program.

The first wartime budget of September 12, 1939, outlined the general economic philosophy of the government, especially as regards taxation. The main feature of the tax program was the excess profits tax which indicated to the business community and to the public the lines of government thinking in respect of taxes on corporate profits. The general corporate income tax was raised from 15 per cent to 18 per cent, and a 20 per cent surtax was added to the personal income tax. Excise taxes were raised or imposed on tobacco and a variety of beverages. These tax increases, while important in principle, did not at the time have much restraining effect since the increases in the corporation and personal taxes on income were not payable until after the end of the fiscal year. Furthermore, deflationary tendencies were partly offset in the short run by the deliberately expansionist monetary policy already referred to.

By the time the second war budget was presented in June, 1940, sufficient time had elapsed to permit reconsideration and refinement of the tax structure of the previous September. Especially after the fall of France it was evident that defence expenditures were going to be very large. The excess profits tax was established on a basis which, apart from changes in rates, persisted throughout the war. Personal income taxes were raised sharply and exemptions lowered. A start was made in the taxation of consumers' durable goods with a 10 per cent tax on radios, radio tubes, phonographs and cameras. As an exchange conservation measure heavy progressive taxes were placed on automobiles and the war exchange tax of 10 per cent was imposed on all imports from non-Empire countries.

With these two budgets the general pattern of wartime taxation was established and we now examine separately the development of the various types of tax.

The Personal Income Tax

The tax on personal incomes ranked about equally with combined corporation income and excess profits taxes as a source of revenue, and it would seem to have played a more significant role than any other tax in

drawing off surplus purchasing power and thus in creating a favourable background for the whole stabilization program. At the outbreak of war the income tax structure of the country consisted of a federal tax, provincial taxes in most provinces and municipal taxes in several provinces.

The income tax increases in 1939 and 1940 brought about very large proportionate increases in the tax level, but this was still not high compared with the maximum reached in the calendar year 1943. An important restraining factor apparently was the variation in income and corporation tax levels in the different provinces as a result of which the Dominion, in fixing its schedule of rates, had to take cognizance of the highest schedule of rates effective in any province. In 1941, however, this problem was met by a series of wartime tax agreements with all of the provinces by which the latter temporarily vacated the personal income and corporation profits tax fields in exchange for a fixed annual payment. With this change in prospect, the government was free in 1941 to undertake increases in the income tax which approximately doubled the federal tax collected on moderate incomes, although elimination of the provincial taxes moderated this slightly. The government's policy was expressed by the Minister:

"As I have already indicated, and with the object of keeping our entire tax structure as equitable as possible at a time when rates are being increased very greatly, and even minor inequities become serious, we have decided to place our main reliance for increased revenue on direct taxes levied on the income and property of individuals. These are the fairest taxes, for their amount depends upon the best measures that can be found for ability to pay, and their burden is not shifted on to other shoulders as may be the case with other taxes. Consequently, I have endeavoured to raise the rates of direct taxation to the highest level which I think the Canadian people can be asked to bear in this historic year. No longer do we need delay at all for fear of diminishing purchasing power. We must still have some regard for incentive and efficiency, but I think we can certainly assume that other motives than those of personal gain are dominant in the minds of Canadians today, whatever their incomes or positions."¹

A further increase in 1942 raised rates to the wartime peak which lasted until June 30, 1944. These high levels led to the adoption of a "pay-as-you-earn" system of collection and the high rates were also tempered by making a part of the tax refundable after the war. The compulsory savings portion of the tax was reduced to the extent that the taxpayer had offsets in the form of life insurance premiums, mortgage principal payments and pension fund contributions.

¹House of Commons Debates, April 29, 1941.

TABLE 37

A. PERSONAL INCOME TAXES AS A PERCENTAGE OF INCOME

	INCOME				
	\$1,000	\$1,500	\$3,000	\$5,000	\$10,000
Single—No Dependents					
1938 ^a	—	1.5	3.5	5.3	9.4
1943 Incl. Refundable Tax	17.2	24.5	35.5	42.6	51.1
1943 Excl. " "	(9.2)	(16.5)	(27.5)	(34.6)	(43.1)
1948	2.9	8.0	14.0	16.7	22.5
Married—No Dependents					
1938 ^a	—	—	1.5	3.5	7.8
1943 Incl. Refundable Tax	—	13.3	29.5	37.6	47.6
1943 Excl. " "	—	(6.7)	(19.5)	(27.6)	(37.6)
1948	—	—	9.0	13.4	19.9
Married—Two children ^b					
1938 ^a	—	—	.3	2.4	6.6
1943 Incl. Refundable Tax	—	3.3	22.3	33.2	45.5
1943 Excl. " "	—	(1.6)	(11.1)	(21.2)	(33.5)
1948	-14.4 ^b	-9.6 ^b	2.9	9.7	17.9

a) Includes Ontario provincial tax in 1938.

b) Children are assumed to be eligible for family allowances. Average family allowances are deducted from tax paid and account for the negative taxes shown in 1948.

B. MARGINAL RATE^a OF PERSONAL INCOME TAX
(per cent)

	INCOME				
	\$1,001	\$1,501	\$3,001	\$5,001	\$10,001
Single—No Dependents					
1938 ^b	4.5	4.5	7.5	10.9	18.6
1943 Incl. Refundable Tax	37.0	40.0	50.0	54.0	64.0
1943 Excl. " "	(20.0)	(32.0)	(42.0)	(46.0)	(56.0)
1948	14.0	20.0	20.0	22.0	35.0
Married—No children					
1938 ^b	—	—	6.0	9.3	17.1
1943 Incl. Refundable Tax	—	40.0 ^c	48.0	52.0	62.0
1943 Excl. " "	—	(20.0 ^c)	(38.0)	(42.0)	(52.0)
1948	—	10.0	20.0	22.0	35.0
Married—Two children					
1938 ^b	—	—	4.5	7.8	15.5
1943 Incl. Refundable Tax	—	7.0	48.0	52.0	62.0
1943 Excl. " "	—	(3.5)	(24.0)	(40.0)	(50.0)
1948	—	—	20.0	20.0	30.0

a) Tax rate on the last dollar of income.

b) Includes Ontario provincial tax rate in 1938.

c) The marginal rates shown are those for an income of \$1,566. For incomes from \$1,200 to \$1,565 the marginal rates were 66 per cent and 33 per cent respectively. These rates were the result of grading down the tax from the amount determined by the tax formula at \$1,565 income, to zero tax at \$1,200 income.

Corporation Income and Excess Profits Taxes

Corporation income and excess profits taxes were the largest single source of revenue. Although they undoubtedly had certain economic disadvantages they would seem to have helped to establish a feeling of equit-

able treatment among different groups in the community who were faced with the burdens and sacrifices of wartime. As the Acting Minister of Finance said in 1939:

"The main feature of this program is an excess profits tax of general application. If we are not to impair the incentive to maximum efficiency or retard the prompt utilization of our entire resources and the achievement of full productivity and employment we must be able to hold out to business men the opportunity of making a reasonable profit and also the chance of securing some compensation for exceptional efficiency and willingness to take the risks inherent in industrial enterprise in wartime. But under wartime conditions when important sacrifices are being asked from the humblest citizen and when human lives are at stake, no government can justify the making of profits that are excessive or unreasonable."¹

For the first year in which the Excess Profits tax was in effect, namely 1940, the rate on profits in excess of those earned during the pre-war base period (1936-1939 inclusive) was 75 per cent, with a minimum rate (including the corporation income tax) of 30 per cent. In 1941 the minimum rate was raised to 40 per cent. As of July 1, 1942, by which time complete control of prices, salaries and wages was in effect, the rate of "excess" profits was raised to 100 per cent and this rate lasted until the end of 1945. It was provided that part of the tax on excess profits would be refunded after the war. In simplified form the combined effect of corporation income and excess profits taxes during this period was (a) a 40 per cent tax on all profits, plus (b) a 60 per cent tax on profits in excess of $116\frac{2}{3}$ per cent of standard profits, with one-third of this 60 per cent tax refundable.

Commodity and Other Indirect Taxes

The pre-war commodity taxes, such as the sales tax and excises on tobacco and beverages, showed considerable increases in yield with the rise in business activity and prices and also, in the case of excise taxes, as a result of sharply increased rates. As regards the principal levy in this group, namely the sales tax, the Minister said in 1942:

"Remembering that we already had an eight per cent sales tax at the outbreak of war, we have avoided, since the first war budget, except in last year's increase in the sugar tax, indirect taxes which would raise the cost of the necessities of life. The imposition of the price ceiling has added conclusively to the weight of argument against general rather than selective increases in consumption taxes. I propose to follow again, therefore, a selective approach and recommend substantial increases in taxes which fall on luxury expenditures."²

¹House of Commons Debates, Sept. 12, 1939.

²Ibid., June 23, 1942.

The special wartime commodity taxes included some whose principal purpose was stated to be the absorption of purchasing power, such as the 1941 taxes on transportation fares and moving picture receipts, and the 25 per cent tax on jewellery, watches, ornaments, etc., imposed in 1942. Most new commodity taxes in addition assisted in the conservation of foreign exchange and restrained the use of scarce materials. This was, of course, particularly true of the 10 per cent war exchange tax of 1940 on all imports from non-Empire countries. A graduated excise tax on domestic and imported automobiles was imposed in the same year and increased in December, 1940 and again in April, 1941. In December, 1940 a tax of 25 per cent was placed on a wide variety of electrical and other metal household articles. The last of the important exchange conservation taxes was the three cents per gallon gasoline tax imposed in the spring of 1941.

WARTIME BORROWING AND MONETARY POLICY

Turning now to borrowing we think it is fair to conclude that although fairly substantial resort to the banking system could not be avoided, a very real and, on the whole, successful effort was made to encourage new net saving by the public out of current income. This was highly important because one of the chief purposes of borrowing in a wartime situation is to secure the release of productive resources from civilian to government use.

The encouragement of systematic saving was largely the responsibility of the National War Finance Committee. Savings programs were established through salary deduction plans, sale of war savings certificates and stamps, and by arrangements with the banks for temporarily financing the purchase of bonds on an instalment basis. Thus, while public bond issues took place semi-annually, the savings process became more or less continuous. We believe that the wartime effort to encourage saving and to persuade the public to invest in government securities was at least as intensive in Canada as in any other country and that the results compared favourably with those elsewhere.

Only in the early stage of the war period, when some additional incentive to expand national output seemed desirable, did the government follow an announced policy of deliberately borrowing from banks as a means of meeting its financial requirements. The banks did not participate as subscribers to the public bond issues and their temporary advances to permit the general public to buy bonds on an instalment basis did not give rise to any substantial accumulation of bank credit over the war period as a whole.

However, as the scale of war expenditure and government borrowing needs increased it was found that financing through the medium of security purchases by the general public did not provide the required amount of funds. Consequently the residual portion of the government's needs was met by selling securities to the banking system.

Starting in July, 1942, the government adopted the policy of making direct sales to the chartered banks of short-term securities called "deposit certificates". Normally, these certificates were sold to the banks in the period preceding the semi-annual public bond issues when the government had spent the proceeds of the previous bond issue. After each public issue of bonds it was customary for the government to reduce the outstanding amount of deposit certificates. However, as the amount of money raised through public loan offerings was falling short of the total required, the outstanding volume of deposit certificates continued to increase over the war period. By arrangement with the chartered banks deposit certificates issues were allotted to the individual banks on a pro-rata basis and were not regarded as a type of security in which market transactions would take place. To the extent that monetary expansion took the form of an increase in non-interest bearing demand deposits of the public, the type of security and the low rate of interest, three-quarters of one per cent per annum during the war period, made deposit certificates a suitable and economical means of government bank borrowing.

In order to avoid too many figures in the text, the Table 38 shows the money supply and related bank assets taken from published statement of the Bank of Canada for December 31 in each of the years 1938 to 1947 and for November 30, 1948, which was the latest available to us.

Until 1943 nearly the whole of such monetary expansion as occurred was accounted for through the direct sale to the banking system by the government of short-term special issues of securities such as the deposit certificates referred to above. Monetary expansion during this period took the form of increases in currency circulation and demand deposits; there was no increase in the public's savings deposits with the banks, any tendency for savings deposits to rise having been offset by investment by the public in government bonds.

By 1943, partly as a result of the large scale of the semi-annual bond issues, the public began to sell bonds in the intervals between loan campaigns; that is more bonds were offered than could be absorbed by buyers other than the banks or the government itself. Such net selling by the public necessarily resulted in an equivalent increase in the volume of bank deposits held by the public, and also in the amount of the banks' holdings of government securities. This was bound to occur whether the banks themselves bought the securities sold by the public, or whether these were bought by the government with further residual funds obtained by the sale of other securities to the banks.

It may be noted that during the period after 1942, that is, the period in which economic pressures were greatest, more than half the rise in bank deposits took the form of increased savings deposits which in practice remained idle. There is no difference at the time in real economic effect between public saving through the acquisition and retention of savings deposits, and public saving through the acquisition and retention of government bonds.

TABLE 38
MONEY SUPPLY AND RELATED BANK ASSETS
(as at December 31st in millions of dollars)

MONEY SUPPLY	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	Nov. 30 1948
Currency Outside Banks											
Notes	207	247	341	450	633	794	930	992	1,031	1,046	1,100
Coin	31	34	38	42	49	55	60	63	65	66	69
Total Currency	238	281	379	492	682	849	990	1,055	1,096	1,112	1,169
Bank Deposits											
Chartered Banks											
Demand	734	853	1,031	1,208	1,499	1,697	1,862	2,063	2,291	2,296	2,534
Active Notice ^a	187	197	203	236	238	294	363	474	614	597	651
Other (excl. Dominion Govt.)	42	157	112	97	121	134	153	172	229	233	271
Total	963	1,207	1,346	1,601	1,858	2,125	2,378	2,709	3,134	3,126	3,456
Less Float	116	136	172	198	210	266	243	280	328	362	362
Net Total	847	1,071	1,174	1,403	1,648	1,859	2,135	2,429	2,806	2,764	3,094
Bank of Canada "Other" Deposits	3	18	10	6	19	18	28	30	94	68	64
Total Bank Deposits	850	1,089	1,184	1,409	1,667	1,877	2,163	2,459	2,900	2,832	3,158
Money Supply	1,088	1,370	1,563	1,901	2,349	2,726	3,153	3,514	3,996	3,944	4,327
RELATED BANK OF CANADA AND CHARTERED BANK ASSETS											
Dominion Government Securities, Gold & Exchange											
Bank of Canada, Gold & Exchange	214	290	38	210		1					
Banking Securities ^b	196	425	743	973	1,614	2,083	2,321	1,696	1,476	811	1,145
Other Dominion Government Securities ^c	753	752	737	798	1,180	1,671	2,277	3,652	3,745	3,718	3,788
Total Dom. Govt. Securities, Gold and Exch.	1,163	1,467	1,518	1,972	2,794	3,765	4,598	5,348	5,221	4,529	4,933
Less Dom. Govt. Deposits ^d	79	145	32	148	366	597	720	1,002	366	272	266
Net Total	1,084	1,322	1,486	1,824	2,428	3,168	3,878	4,346	4,855	4,257	4,647
All other Loans and Investments	1,628	1,767	1,720	1,719	1,570	1,459	1,593	1,827	2,297	3,084	3,375
Less Inactive Notice Deposits ^e	1,472	1,544	1,438	1,433	1,436	1,654	2,060	2,391	2,856	3,143	3,435
Total Related Bank Assets	1,240	1,545	1,768	2,110	2,562	2,973	3,411	3,782	4,296	4,198	4,587

a) Chartered banks' public notice deposits in Canada other than estimated aggregate quarterly minimum balances in personal savings accounts and non-personal notice deposits.
b) Bank of Canada and chartered bank holdings of Dominion Government Treasury Bills, Deposit Certificates, Treasury Notes and any other short term issues sold direct to Bank of Canada and chartered banks.

c) Bank of Canada and chartered bank holdings of Dominion Government direct and guaranteed securities other than those shown as banking issues plus chartered banks' temporary advances to the public in connection with the purchase of Victory Loan bonds at time of issue.

d) Canadian dollar deposits of the Dominion Government at chartered banks and Banks of Canada.

e) Estimated aggregate minimum quarterly balances in chartered banks' personal savings deposits in Canada plus non-personal notice deposits in Canada.
Source: Bank of Canada, Ottawa.

In the one case, the money saved by the public is placed directly at the disposal of the government and in the other the government has to borrow an amount from the banks equivalent to the increase in their savings deposits. Whichever form the financing takes, it is the decision to save rather than to spend that releases the resources to government. Presumably, however, the retention of savings unspent is more likely if they are held in the form of securities rather than deposits, and in any case, the campaigns to sell securities to the public had as their chief objective and result, the encouragement of greater total savings, in whatever form.

The government's fiscal requirement during the war period brought about an increase in the money supply, that is, currency circulation and demand or active bank deposits. In fact between the end of 1938 and the end of 1945 the total money supply as estimated by the Bank of Canada increased three-fold. What the economic effects were is difficult to assess in any precise manner. It is to be borne in mind that the increase in money supply accompanied a great increase in employment and volume of production and, therefore, coincided with some greater need on the part of the public for currency and working balances. To the degree that the increase in money supply exceeded what was necessary in view of the economic expansion taking place, it was, over the period as a whole, the residual result of the scale of war expenditures.

FINANCIAL POLICY IN THE TRANSITION PERIOD

In tracing government financial measures from the end of 1943, when post-war policy began to develop, certain influences are evident. The first, in point of time, was concern, voiced in the 1944 budget, that the difficulties of reconversion and the disruption of our export markets might cause substantial unemployment. It is fair to say, however, that in no budget was unemployment considered to be so imminent that the stabilization program could be lightly dismantled or that tax reductions should be made for the sole purpose of countering deflationary tendencies. All the evidence seems to suggest that the strongest reasons for tax reduction were non-economic, arising from public disinclination to support the high taxes which had been willingly accepted in wartime.

Transitional Tax Measures

The budget of June, 1944, introduced three measures designed to assist business through the transition. The first permitted corporations to charge any losses suffered in the first post-war year against the profits of the last war year and forward against profits of the three succeeding years. The second was a plan, of limited scope in practice, for charging part of post-war repair and maintenance expenditures against profits of war years. The final and most important proposal as worked out in practice, provided that depreciation might be charged at rates up to double normal rates on 80 per cent of the cost of acquisition of approved industrial plant, providing that the project was approved by March 31,

1947, and completed or acquired before March 31, 1949. The scheme was widely used and covered expenditure of roughly \$1.4 billion.¹ About two-fifths of all business investment and four-fifths of total manufacturing investment undertaken in the transition period have used these special depreciation provisions.

In approaching the resumption of manufacture of many consumer durable goods towards the end of the war, producers found themselves handicapped by increases in the costs of domestic production and of imported components which, owing to the existence of the price ceiling, they could not pass on to consumers. In May, 1945, in a general statement on decontrol policy, the government announced the removal of the 25 per cent tax on household electric and gas appliances and the reduction of the automobile excise tax to 10 per cent. It was suggested that, since these taxes were included in ceiling prices, the changes would be effective in encouraging production. Resumption of building was assisted by removal of the sales tax on building materials and the 10 per cent war exchange tax was taken off imported building materials and producers' machinery and equipment. Later in the year, in the October, 1945 budget, the same purpose apparently motivated the full removal of the war exchange tax on all imports and the lifting of the sales tax on machinery and apparatus to be used directly in the manufacture or production of goods.

In the budget of October, 1945, the excess profits tax, which had remained unchanged since 1942, was also modified as from January 1, 1946, in the belief, as the Minister said, that it "seriously weakens the stimulus toward investment of capital and the efficient operation of enterprises. In this period of reconstruction it is becoming a barrier to expanding employment." Amendments affecting small businesses had the result of releasing about 12,000 firms entirely from excess profits tax and reducing the tax of many others. The 20 per cent refundable portion was abolished and the rate of tax on excess profits reduced to 60 per cent. In terms of the simplified formula this meant that in addition to the flat 40 per cent tax on all profits, the tax on profits in excess of 116-2/3 per cent of standard was now 20 per cent.

LONG-RUN FISCAL POLICY

Concurrent with these transitional measures, and of growing importance in the formulation of year-by-year budget policy, was the development and enunciation of basic long-run fiscal principles. Before tracing fiscal practice beyond the early transition period it is therefore desirable to pause briefly to look at this aspect of government policy.

It was in April, 1945, with the end of the European war in sight, that the government issued its White Paper, which set out the objectives of economic policy. Reference was made to the willing acceptance of deficits in times of depression, offset by surpluses in periods of high employment,

¹See Chapter 5, *The Investment Boom*.

with a basic program of encouragement to private investment by fiscal measures. This program was worked out in more detail in the "Proposals of the Government of Canada" to the Dominion-Provincial Conference on Reconstruction of August, 1945, which said in part:

"The Government is not only prepared to accept . . . (deficits) . . . but will deliberately plan for them in periods of threatened depression in order to give the economy a stimulus and relieve unemployment. As a corollary the Government will also plan for substantial . . . debt retirement in periods of high business activity. This is simply saying that the Government will budget for a cycle rather than for any one fiscal year . . . The modern governmental budget must be the balance wheel of the economy."

It will be clear from the next section that the practical application of these principles was tempered by other important influences.

POST-WAR TAX CHANGES

Certain measures of tax reduction up to 1946 were referred to above as being among the steps adopted to deal with specific problems of the transition period. We continue here with the more general measures which accompanied them, and with subsequent developments.

The first major tax reduction occurred as early as mid-1944, when the refundable or savings portion of the personal income tax was dropped, with evident reluctance on the part of the Minister of Finance. In May, 1945, when some of the excise taxes were lifted or reduced in order to facilitate production at ceiling prices, the Minister clearly felt that price stability was still in danger, and said:

"The Government is determined to safeguard the stabilization program until its full benefits can be repaid in a smoother, more rapid transition to a prosperous peacetime economy."

The "White Paper" already referred to and issued at about the same time contained similar warnings on the inflationary dangers of the immediate post-war period.

The Budget of October 12, 1945, modified the Excess Profits Tax as described above, and, pending fundamental changes in the personal income tax law, provided for a reduction of 16 per cent in this tax, effective from October 1, 1945. In introducing this change the Minister said:

"We must maintain for some months yet the economic stabilization policy . . . Our tax changes must be such as to contribute to employment and income . . ."

Additional tax reductions were made in the budget of June, 1946, but the most important of these did not come into effect until 1947 and hence did not greatly reduce 1946-1947 revenues. As shown in Table 36, war requirements dropped very sharply in 1946-1947 resulting in an over-all cash surplus, and a reduction in debt of about \$300 millions.

The income and corporate tax reductions which came into force in 1947 had been decided upon in June, 1946, despite the Minister's opinion that "The current economic situation . . . is not such as to provide an economic justification for reducing taxes at the present time."¹ The structure of the income tax, which contained complications attributable to war finance and the introduction of family allowances, was greatly simplified, and higher exemptions and new provisions regarding dependents removed from the income tax roll about one-quarter of the number of taxpayers. Exemptions were raised from \$660 and \$1,200 for single and married persons respectively, to \$750 and \$1,500. Aside from those persons who were dropped from the tax roll altogether and those at the lower end of the taxation scale, reductions were of the order of 10 to 15 per cent for most taxpayers. Under the Dominion-Provincial tax agreements of 1941 the Dominion was obligated within one complete fiscal year after the termination of the war to reduce its rate of tax on corporate incomes by at least 10 per cent of such incomes. The flat rate tax as from January 1, 1947, was accordingly reduced from 40 per cent to 30 per cent on all profits, and was to be defined henceforth as corporate profits tax rather than partly as excess profits tax. The excess profits tax was retained but reduced from 20 per cent of profits in excess of 116-2/3 per cent of standard, to 15 per cent.

Added to the reduction in the personal income tax which had become effective in January, 1947, another cut was introduced in the budget speech of April, 1947, to take effect July 1. The combined result of these in the calendar year 1948, in which both were fully effective, was a tax reduction of about 40 per cent for persons in the medium income brackets. It was subsequently estimated that the income tax is now producing less than half the amount of revenue which would have been collected on present personal incomes had wartime peak tax rates been retained.²

The 1947 budget also announced that the government had decided to retain the excess profits tax at a reduced rate of 10 per cent until the end of 1947. In November, 1947, as part of the emergency exchange conservation program, a number of excise tax increases or imposts were made on goods imported from the United States or domestic goods having a higher proportion of components which must be paid for in United States dollars. Automobiles, cameras and electrical equipment were subject to taxes of 25 per cent and up, based on the manufacturer's price. At the same time taxes on sugar, tea and coffee were eliminated and sales taxes were removed from electricity and gas used in dwellings. It may be mentioned, too, that federal taxes of an excise type were removed at about this time in fields of particular provincial interest. This included withdrawal of the three cents per gallon gasoline tax in March, 1947, and the 20 to 25 per cent amusement taxes in May, 1948. At the end of July, 1948, the tax increases or imposts of November, 1947, were rescinded.

¹House of Commons Debates, April 29, 1947.

²Address by Hon. Douglas Abbott, Minister of Finance, to Canadian Tax Foundation, November 23, 1948.

The fiscal year 1947-1948 saw a repetition of the experience of the previous fiscal year, with a reduction in cash requirements, buoyant revenues and a \$468 million reduction in debt. In line with the principles which had been laid down earlier, the Minister had "come to the conclusion that the budget this year (1948) should contain no general tax changes", since "there will never be a better time to reduce the burden of our national debt." He reviewed government fiscal policy since the war:

"Our budget policy has been clear and explicit. We have striven to bring expenditures down and to keep them down. War activities have been curtailed as rapidly as possible. Economy has been observed in the expenditures we have had to make. We have deferred wherever possible expenditures on construction, new equipment and new projects in general . . .

"On the taxation side, our policy has been to reduce our taxes where they were impeding work and production, but otherwise to keep them as high as is reasonably practicable in the circumstances in order to produce a surplus that could be used to make the loans and investments we are required to make and to reduce the huge debt that we necessarily accumulated during the war. Some tax reductions have been made, of course, to encourage the expansion of production, and some because the burden of income tax on individuals which had to be imposed in wartime was greater than that which could reasonably be borne in peacetime, however urgent the financial or economic necessity. At the termination of our wartime tax agreements with the provinces, we were obligated to reduce our rate of corporation tax, and consideration for the revenue requirements of the provinces led us also to give up some of our wartime taxes. By and large, however, the taxation aspects of our budget policy, as well as the expenditure aspects, have been primarily directed to countering the inflationary pressures threatening Canada in recent years."¹

The Minister pointed out that it was not sufficient to have a moderate budgetary surplus to obtain an anti-inflationary effect. Part of such surplus would be needed to finance the government's normal investments, for example, housing. Additional funds would be required to finance the excess of exports over imports, part of which would take the form of loans to foreign countries and part of which would be needed to finance additions to our reserve of United States dollars. Thus any substantial anti-inflationary effect would require a surplus greater than the total of these special cash requirements.

As we write this report the situation seems to be that the over-all cash surplus for the fiscal year 1948-1949, will not be sufficient to cover repayments of refundable income and excess profits taxes coming due

¹House of Commons Debates, May 18, 1948.

in the year, still less to reduce the volume of debt outstanding in the form of government securities.

DEVELOPMENTS IN MONEY SUPPLY

Since there was on balance no increase in the chartered bank's loans and non-government security holdings during the war, the whole of the monetary expansion which took place during that period may be attributed to the government's war expenditures. War expenditures declined only gradually following the end of hostilities and the deficit on cash account continued to swell money supply until October, 1946. The increase in money supply between December 31, 1938, and December 31, 1946, was \$2,900 million of which loans and investments other than in Dominion government securities accounted for only \$670 million.¹

As conditions returned to a peacetime basis, it appeared to the financial authorities that there was every reason to believe there would be many demands on the chartered banks for larger industrial and commercial credits. During the war government had been the biggest buyer of goods and services and business had not found it necessary to finance normal inventory and trade credit requirements. At the same time it was to be expected that capital funds required for reconversion and deferred maintenance and improvement would be substantial and that sales of government securities by the general public would take place on a considerable scale as opportunities to make deferred expenditures appeared.

All these factors pointed to a further upward influence on money supply. In view of this and the increase which had already taken place for different reasons during the war, it was stated to be undesirable to provide any incentive which might have resulted in unnecessary monetary expansion.

In January, 1946, the government and the Bank of Canada entered into discussions with the chartered banks which culminated in March, 1946, in a voluntary arrangement known as the Savings Agreement, certain aspects of which, were intended to have some restraining effect on credit expansion. Under this arrangement the banks agreed not to hold more than 90 per cent of their Canadian personal savings deposits in government bonds. They also agreed that their rate of earnings on such investments would not exceed their average cost of operating personal savings accounts plus a moderate profit margin. One of the effects of the Savings Agreement was to prevent the banks from being aggressive buyers of government bonds in the market which might perhaps have encouraged the general public to sell bonds on a greater scale than would otherwise have been the case. Another result was to make it impractical for banks to sell only their low yield short-term government bonds in order to obtain funds to expand their loans and non-government investments. In order to keep their average rate of earnings on government bonds down to the agreed maximum it became necessary for banks to sell

¹See Table 38.

on the average a medium term bond which would have a yield much closer to the returns obtainable from expanding loans and other investments.

Late in 1946 the rate of government expenditures had declined to the point where government began to have an over-all cash surplus available for debt retirement. This was an important development so far as effective monetary policy was concerned. In the first place, the accumulation of such an over-all cash surplus had the initial effect of transferring funds from deposits of the general public to government deposits, and since a large part, though not all, of the increase in government deposits was used to redeem bank-held debt, rather than government securities held by the general public, the effect of the whole operation was to reduce the money supply of the general public. Secondly, to the extent that the surplus resulted in a transfer of funds from deposits of the general public to the government deposit account at the Bank of Canada (rather than at chartered banks) it had the same effect on chartered bank cash reserves as "open market" security sales by the central bank. The average cash ratio of the banks gradually declined during 1947 from the previous level of about 11½ per cent of Canadian deposits to about 10½ per cent by the middle of 1947, and the chartered banks on balance sold appreciable amounts of government bonds in order to maintain cash reserves.

In the final quarter of 1947 a somewhat nervous feeling developed in the bond market. There was a good deal of anticipation in the United States that the Federal Reserve System was going to reduce the support prices for government bonds, and selling of such securities became quite heavy. Some of this feeling was communicated to the Canadian market. Under such conditions, maintaining the earlier pressure on the banks by keeping down their cash reserves might have aggravated the situation and led to more nervousness, a higher rate of selling bonds by the general public, and consequently a sharp increase in interest rates. As we shall see the monetary authorities did not believe such an increase was desirable, banks' cash reserves were permitted to rise somewhat in the final quarter of 1947, and the banks again became net buyers of government bonds in the market.

Over the whole year 1947, as a result of the substantial government over-all cash surplus, before debt retirement, there was a slight drop in money supply despite an unprecedented increase in chartered bank loans and holdings of non-government investments such as corporate debentures.¹

INTEREST RATES

During the war period when public bond issues were taking place at six month intervals the government evidently considered it desirable that the extent of public participation in new loan offerings should not be reduced by reason of uncertainty regarding the course of bond prices or unfavourable comparisons between the terms of new issues and

¹See Table 38.

securities already in the market. Broadly speaking, yields on long-term government bonds during the war period were approximately the same as had become established in the immediate pre-war years.

As the tide of war began to turn in favour of the Allies the public began to give more thought to the period after the war. One question was would there be higher interest rates on government bonds? At the same time the scale of the war program reached its peak and it was evidently considered important to maintain the effectiveness of the saving program. In view of this situation and apparently to give some assurance of continuity of policy for those contemplating the problems of large scale reconversion expenditures after the war, the Governor of the Bank of Canada in his annual report for the year 1943 which became public in February, 1944, made the statement that:

"The utmost effort to maintain and increase our saving is still necessary, and the first and foremost concern of financial policy must be with winning the war. The stage has now come, however, when many are also having to give thought to the economic problems which will arise after the war.

"One factor which will affect decisions is the prospective cost of borrowing. It therefore seems appropriate that the Bank should, by reducing its rate, signify its intention to continue the kind of monetary policy which has brought about the current level of interest rates. A policy aimed at higher interest rates would only become intelligible if, after war shortages are over, consumers' expenditures and capital development were to proceed at a rate which would overstrain our productive capacity. I see no prospect of such a situation arising in a form which would call for a policy of raising interest rates."

Strong public buying developed in the bond market after the Ninth Victory Loan in the fall of 1945. A similar trend was evident in the United States market. Yields on long-term government issues in Canada declined nearly one half of one per cent. This was followed by a period of relative stability. In fact selling had declined to negligible proportions by mid-1947.

In the final quarter of 1947 when the nervousness previously described appeared in the United States bond market, and particularly as United States long-term government bond yields increased, the rate of general public selling of government bonds in Canada rose considerably. In January and February, 1948, the Bank of Canada altered its market supporting policy and permitted longer term Government of Canada bonds to decline to prices slightly above par, representing yields just under three per cent per annum, at which level they offered approximately the same yield as during the war and immediate pre-war years. At this time the Bank of Canada issued a press release stating that:

"Changes in market prices for Canadian Government bonds during the past few months have brought the yield on the longest-dated issues to slightly less than 3 per cent per annum, the rate of interest at which Canadian Government bonds were issued during the war years.

Interest rates on other high-grade securities have also risen, and to a somewhat greater degree. This has occurred during a period of very large capital investment and a correspondingly large demand for money which has been borrowed in this connection. The degree of the change in interest rates does not appear inappropriate in the circumstances.

On the other hand, the Bank of Canada does not regard the increase in rates of interest which has taken place as one of the most important factors in combating a general rise in price levels. The Bank is not in favour of a drastic increase in interest rates which would be likely to create a situation that might hamper, and might even prevent, essential forms of capital investment which Canada needs and which it is desirable should be proceeded with."

The same point of view was expressed in the Budget Speech of May 18, 1948, when the Minister of Finance said,

"I do not believe that any reasonable increase in interest rates would act as a serious brake upon business expenditures under the circumstances today, nor would it serve effectively to persuade consumers to spend less and save more of their income."

In a speech on April 1, 1948, before the Academy of Political and Social Science the Minister amplified the government's views:

"On the supply side, it is difficult to believe that any reasonable increase in interest rates would persuade the general public to save more and increase on balance its holdings of government bonds, thus making possible effective open market operations by the central bank. During the war the public in all democratic countries was persuaded to increase its holdings of government bonds on a scale far beyond anything previously dreamed of. A rise in interest rates likely to be sufficient to induce the public to increase its savings materially under present conditions would cause so drastic a fall in the prices of such bonds and so chaotic a condition in the money market and among institutional as well as individual investors that I doubt whether any responsible person would recommend it as deliberate policy. Even if the public should increase its purchases of government bonds, this would not be anti-inflationary unless the purchasers, in doing so, increased their current savings. A switch from idle savings deposits to bonds would not be enough, and it is difficult to believe that most of the small savers are likely to reduce their living expenditures under current

conditions merely because they can obtain a slightly higher interest rate on the money they save.

"Analysis of the demand side of the market leads to a similar conclusion. From the point of view of the industrial borrower, demand is so intense that it would take a really substantial change in interest rates to dampen his enthusiasm and make him defer his capital project. Difficulty in obtaining loans or in floating securities would be a much more effective deterrent than higher rates. It would, of course, be comparatively easy for the central bank to produce such chaotic conditions in the money market that even the largest and strongest corporations would have difficulty in raising money. But as I have already indicated, what we need is a slowing down, not a sudden cessation, of capital development."

In his evidence before the Special Committee on Prices on May 27, 1948, the Governor of the Bank of Canada expressed similar views. At the same time the Governor of the Bank pointed out that when the general public was not a net buyer of government bonds it was not feasible for the Bank of Canada to increase "open market" security sales with a view to restraining the increases in chartered banks of loans and non-government investments.

SUBSEQUENT MONETARY DEVELOPMENTS

Also in his evidence before the Special Committee the Governor of the Bank referred to the fact that "open market" operations had been supplemented by advice from the Bank to the chartered banks in the matter of lending policy. During the second half of 1947 the Bank had referred to "the desirability of scrutinizing very carefully loans against inventories and receivables, to try to avoid a situation where inventories or receivables were excessively high." The Governor said that in February, 1948, the Bank had also suggested to the chartered banks that under existing conditions the financing of capital development by the expansion of bank credit was undesirable and the banks had expressed thoughts along the same lines.

During 1948 the increase in chartered bank loans and holdings of non-government securities has been appreciably less than half the rate of expansion in 1947.¹ On the other hand the government's budgetary surplus of current revenues over ordinary expenditures has been required to finance other government outlays not included under the heading of expenditure and the accumulation of foreign exchange reserves. Unlike 1947, there has been no net flow of funds to the government from the public to offset the increase in money supply. Therefore, a considerable increase in money supply will be shown on the year, although the 1948 expansion in bank loans is much less than last year.

¹See Table 38.

APPRAISAL

As we have emphasized throughout, the primary purpose of taxation, borrowing, etc., is to raise revenues to meet government expenditures. But this process has important subsidiary effects on the economy and thus is one of the instruments at the disposal of the government to influence economic activity generally. These two aspects of public finance are not in conflict. They lead to the same conclusion. For example, budgeting for a surplus in an inflationary period is sound policy, not only because it tends to reduce the volume of public spending, but because there is no better period in which to reduce the public debt.

In theory, fiscal and monetary action alone can prevent a general rise in prices. All that is required is a policy which takes money out of circulation and otherwise restricts expansion in the money supply and the rate of spending to the point where money demand is equal to the available supply of goods and services at the existing level of prices. If such a policy is carried through, so the theory runs, even a rising level of external prices can be neutralized by allowing the domestic currency to appreciate in terms of other currencies.

In practice, however, there are some very real limitations on the extent to which fiscal and monetary measures can be used to restrain the kind of inflationary pressures that have existed in Canada since the outbreak of World War II.

One such limitation lies in the reaction of taxpayers to tax rates which they regard as unduly high. Personal income taxes which are regarded as too high may, under certain circumstances, lead to slackening of personal effort, or to demands for higher wages. Unduly high taxes on corporate profits may, under certain circumstances, interfere with maximum output and may increase costs and prices through lowering the penalties on waste and inefficiency in business. Unduly high indirect taxes are less likely to impinge on incentives, but may cut across accepted standards of equity in taxation, and there is danger that because of their effect on the cost of living they too may lead to higher wage demands. In other words, if the remedy is administered in too large doses, it may produce reactions opposite to those intended.

Apart from the limiting factor of incentive, experience has confirmed that neither fiscal nor monetary measures can be sufficiently selective and flexible to relieve the bottlenecks in particular commodities which arise in an acutely inflationary situation. Such measures may be able to control the situation ultimately but the over-all results may be much too drastic. To use them for such a purpose is like using a butcher knife to perform a delicate surgical operation. The cause of the trouble may be removed but a good deal of unnecessary damage may have been inflicted in other parts of the system.

More important perhaps than any of these limitations is that imposed by the degree to which the public is willing to give support to a government which attempts to put into effect the kind of fiscal and monetary policies required to prevent rising prices. Inflation is undesirable and unpopular in many ways, but full employment and prosperity also have a very wide popularity.

Our appraisal must therefore be made with these economic and public limitations held clearly in view. The test we shall apply is whether or not under all the circumstances the policies followed made as much of a contribution to stability as reasonably could have been expected.

Without necessarily concurring in all the views expressed by the government, we would commend the efforts that have been made, through the budget speeches of the Minister of Finance and elsewhere, to clarify the purposes of fiscal and monetary measures in an inflationary situation. As we have already said, government cannot move beyond the point of public acceptance in these matters but, thanks to the growing sense of public understanding of economic issues, that point is now well beyond what any one would have thought possible 10 years ago.

Reviewing the period as a whole, it is clear that little use was made of monetary policy in the orthodox sense, that is, the general restriction on the supply of money, leading to higher interest rates. It appears that fiscal measures, supplemented by direct controls, were depended upon almost entirely to reduce the excess of demand over supply. Various official explanations were offered from time to time for the decision not to follow a more rigorous monetary policy, not all of which appear to us to be entirely consistent. When during the war the prospect of higher interest rates might have interfered with the current sale and retention of Victory Bonds, it was suggested that higher rates would "only become intelligible if, after war shortages are over, consumers' expenditure and capital development were to proceed at a rate which would overstrain our productive capacity".

In 1948, following a limited decline in the price of long-term government bonds, we find the Bank of Canada saying that it "does not regard the increase in rates of interest which has taken place as one of the most important factors in combating a general rise in price levels. The Bank is not in favour of a drastic increase in interest rates which would be likely to create a situation that might hamper, and might even prevent, essential forms of capital investment which Canada needs and which it is desirable should be proceeded with". The Budget Speech of May 18, 1948, puts emphasis on the relatively small effect that any "reasonable" increase in interest rates would have on business expenditures or on consumer spending or saving.

The argument that in the circumstances of the post-war period most consumers and business men would not have been deterred from proceeding with their spending plans by a moderate rise in the rate of interest is very similar to the argument, sometimes advanced in the pre-war depres-

sion, that a reduction in interest rates would have an insignificant effect in stimulating spending. In both depression and boom and, for that matter, at all times, economic forces are at work far more powerful than the possible effects of a change in the cost of borrowing money or in the rate of return on savings. To conclude, however, that the change should not be made because the probable effects would be small is quite a different matter. The easy money policy adopted by the Canadian government in the early thirties did not cure the depression, but it was generally acknowledged to be a step in the right direction and that higher interest rates would have caused an even greater curtailment of spending in individual cases.

In appraising monetary policy since the beginning of World War II it therefore seems fair to say that it was largely passive and deliberately so. Whether it should have been more positively anti-inflationary is a matter of judgment. A tighter rein would have involved a drop in the market price of Victory Bonds and other longer term government securities. Since the Canadian government debt has now grown until it forms a very large part of the total debt held by Canadians and a similarly large part of the total assets of institutions like banks and insurance companies, we can understand the reluctance of the monetary authorities to create unsettlement in the financial markets. We can understand, too, their reluctance even to appear to break faith with individual holders of Victory Bonds who may have purchased such bonds in the expectation that they would always be able to sell them, if need arose, at around par.

Nevertheless, it is our view that monetary measures could have been used to a greater extent than they were during the recent inflationary period. We hold this view even though we are aware that Canadian policy was similar to that followed in the United States and the United Kingdom. The policies followed probably reflected public thinking and discussion which seemed, on the whole, to be more concerned about the dangers of a post-war recession than of a post-war inflation.

On the other hand the government did not hesitate to pursue a vigorous fiscal policy. It made a determined effort to pay for a high proportion of the costs of the war out of taxes and to finance the remaining deficit by methods calculated to reduce the volume of spending. There are no absolute standards against which to measure achievements; we can only record our view that the policies followed by the government indicated a true appreciation of the principles of war finance and that more was done than most people thought possible, to translate those principles into practice. Even so, there remained in the hands of the public at the end of the war a large volume of liquid savings held in banks or government bonds ready to be spent which has added to the difficulty of keeping the post-war inflation in check.

To some extent at least the Canadian government shared the widely-held view that the problem in the post-war period was more likely to be a deficiency than an excess of demand; hence, its special tax concessions

to business, already outlined, to encourage capital expenditures. In the light of subsequent events it is possible that these concessions gave a greater stimulus to spending than was needed to keep the economy operating at full capacity.

We must observe, however, that the spending stimulated by these concessions and by a continuation of low interest rates may have been wholly desirable since it increased the productive capacity of the country. It can be argued that spending for consumption purposes should have been curtailed either by higher taxes or increased voluntary saving in order to make the additional capital investment possible without inflation. The trouble has not necessarily been an excessive rate of capital investment. But the combination of a high rate of spending on capital investment and the maintenance of a high rate of spending on current consumption made some inflation inevitable.

The purpose of fiscal policy in wartime was relatively simple. Apart from avoiding an unnecessary increase in the public debt, it was to curtail civilian spending so that it did not compete with the government's spending purposes. Government spending generated the excess income that threatened to raise prices and efforts were concentrated on trying to get the excess income back into the hands of the government through taxes or the sale of government bonds or on trying to "sterilize" it in the form of other kinds of savings.

At the end of the war this simple pattern disappeared. Government spending was no longer the main generator of inflation. It became clear that total spending would exceed total available supplies of goods and services even if the government took back in taxes as much as it spent. The situation called for a budget surplus, that is, for a reduction in the public debt.

How far did the policies followed meet this requirement? As to expenditure, we are not in a position to comment other than to say that most of the increases in spending on current account compared with pre-war are to be found in the expansion of the social services, the payments to provinces under the tax agreements and the greatly enlarged scale of defence and veterans' expenditure, all of which are presumably part of the accepted pattern. Capital expenditures by various governments are dealt with in Chapter 5. For present purposes it is sufficient to say that the federal government seems to have adhered in large measure to its professed policy of postponing major public works to a more propitious time. Most of the limited post-war increase in the government sector of capital investment is accounted for by provincial and municipal expenditure and by Dominion government housing expenditure.

In assessing post-war tax policy it is necessary to take account of public acceptability as well as economic desirability. Looking at the matter only in the light of what was economically desirable, and leaving out of account the question of acceptability, we are inclined to think that taxes

might have been maintained at a somewhat higher rate. No doubt prices would still have risen, but the rate of the increase would probably have been smaller, and the resulting pressure on those with relatively fixed incomes, less severe.

When account is taken of over-all government spending and investment, rather than merely those particular forms of expenditure that happen to be included in the budget, the surplus of government intake over government outgo in the past few years has not been large.

PRICES AND WAGES

VARIOUS witnesses during our hearings referred to the relationship between wages and prices in particular industries or establishments. Labour organizations and a number of other groups dealt with the subject in a general way in their briefs.

The relationship is complex and the basic data necessary to make an exhaustive investigation is incomplete. Some facts are available, however, which establish certain broad relations between wages and prices during the period since the outbreak of World War II. A discussion of the relationship is useful even though the effects themselves cannot be measured.

The relation between wages and prices may be looked at either from the standpoint of the whole economy or from the standpoint of the individual workers. We shall discuss this relationship from each of these points of view, although, due to limitations of data and other circumstances, most of the discussion will relate to the latter.

RELATIONSHIP BETWEEN WAGES AND PRICES
IN THE ECONOMY AS A WHOLE

The connection between wages and prices from the standpoint of the whole economy may be illustrated by referring to the evidence of Mr. Percy Bengough, President of the Trades and Labour Congress, who stated in part:

"It has been contended in many quarters that organized labour in constantly seeking higher wages is the cause of higher prices . . . Wages do not rise with prices and our experience has shown that high prices for business do not necessarily mean good wages for workmen. As previously pointed out, price increases usually precede the requests for increases in wages."¹

An alternative form of the question which underlies Mr. Bengough's remarks is: to what extent do changes in wages bring about changes in prices and to what extent do changes in prices bring about changes in wages?

Changes in wages throughout the whole economy may affect prices in two main ways. In the first place they usually have an effect on the cost of producing goods and services. On the other hand, changes in wages usually have, at least in the aggregate, an important effect on the spending power of the population. In other words, "under some conditions, changes in wages may affect prices more as a cost than as a source of demand; under other conditions, changes in wages may affect prices more as a source of demand than as a cost."² Let us look at each of these more fully.

¹ Evidence, Royal Commission on Prices, p. 4614.

² S. H. Slichter, "Wages and Prices", Proceedings of the Academy of Political Science, May, 1948, p. 47.

On the cost side there are exceptional conditions where higher wages do not necessarily mean higher labour costs per unit of output. Similarly lower wages do not necessarily mean lower labour costs per unit of output. Increased productivity through greater skill on the part of the worker, more mechanization, more efficient organization of the firm, or other related factors, may individually or collectively offset increases in wages. Furthermore, there are many other ways in which costs for an industry or for an individual firm may be affected in addition to changes in wage rates. These other ways include fluctuations in the rate of output, size of plant, technological changes, as well as changes in the prices of the other factors of production.

During the recent war years the large expansion in output of most industries greatly reduced overhead costs per unit of production compared with pre-war years. Thus increases in wage rates might occur, without necessarily involving similar increases in the prices of the goods being produced. Later, scarcities of raw materials by interrupting production had the opposite effect. These shortages of raw materials raised unit costs apart altogether from any change in wage rates.

The complexity of this relationship between wages and prices on the cost side was brought out by Mr. K. W. Taylor in his evidence before the Special Committee on Prices, as follows:

"Labour costs have gone up, how much it is very hard to say. There are a great many variables in the equation of wage rates and unit labour costs. It all depends upon "productivity". Productivity in turn depends upon the combined efficiency of labour and of management. Wage rates can go up and unit labour costs come down; and lower wages are not infrequently associated with higher unit labour costs. It seems reasonably certain that on the whole unit labour costs in Canada have gone up, but the amount of increase will vary considerably from firm to firm and from industry to industry."¹

Mr. Eugene Forsey in his evidence before us, and commenting on Mr. Taylor's evidence, pointed to the lack of Canadian figures on productivity and went on to say:

" . . . the factors just mentioned at least show how unsafe it is to assume that an increase in wages means an equivalent increase in labour costs, let alone total costs. Labour costs depend not only on what you pay but also on what you get for the payment, and labour costs, even if indirect labour costs are included, are only part of total costs, and a varying part."²

Although it is impossible at present to measure the magnitude of these various forces influencing costs, or their effects, we know that wage rate increases have been one factor among others contributing to rising costs

¹ Evidence, Special Committee on Prices, pp. 59-60.

² Evidence, Royal Commission on Prices, p. 4397.

of production over recent years. These rising costs, no matter what their origin, have undoubtedly led manufacturers to attempt to increase the prices of their products. Prices, however, are not ordinarily advanced, whatever may have happened to costs, unless manufacturers and others expect enough customers will be ready to pay the advanced prices. This leads us to a discussion of the other main way in which wage changes may affect prices, namely through their influence on spending power.

As shown in Table 39, total labour income has increased year by year from 1939 to 1948, being estimated at \$2,583 millions in 1939 and \$7,134 millions in 1948. In 1948, this labour income constituted more than one-half of the total national income.

Included in this expansion between 1939 and 1948 were wages to persons who had been unemployed in the pre-war period or who had been in the relatively low wage brackets. Wage earners generally are not in a position to save much of their current income and so a high proportion of the increased wages was quickly translated into an active demand for goods and services. Since many of the goods and services in demand were in short supply, especially after 1940, this total increase in wages was one of the main inflationary forces tending to force up prices which had to be brought under control.

TABLE 39
TOTAL LABOUR INCOME COMPARED WITH NET NATIONAL INCOME
1939 to 1948

	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948 ¹
Net National Income at Factor Cost (millions of dollars)	4,289	5,255	6,594	8,382	9,093	9,712	9,772	9,765	10,981	12,802
Labour Income ² (millions of dollars)	2,583	2,944	3,586	4,251	4,746	4,908	4,915	5,322	6,235	7,134
Labour Income as Percentage of National Income, (per cent)	60.2	56.0	54.4	50.7	52.2	50.5	50.3	54.5	56.8	55.7

¹ Preliminary.

² Wages, salaries and supplementary labour income, such as employer contributions to pensions, living allowances, workmen's compensation and unemployment insurance, excluding military pay and allowances.

Source: National Accounts, Income and Expenditure 1926-1947 and 1948 (preliminary), Dominion Bureau of Statistics, Ottawa.

With the gradual termination of most of the controls after the war, the increased incomes, especially in the face of continuing shortages of many goods and services, began once more to exert an upward pressure on prices. In addition to advancing wage rates, there were many other factors forcing prices upward at this time. Among these were the accumulated backlog of demand for consumers' durable goods, the production of which was interrupted during the war, the large fund of wartime savings in existence, and the continued needs of European and other countries for Canadian food and other essential products.

So far we have considered only some of the effects of changes in wages on prices. We shall now look at the other side of the question raised earlier, namely, to what extent do changes in prices bring about changes in wages? As before, we have in mind here general price changes and wages in a total or aggregate sense.

While rising wages have added both to costs of production and to volume of demand, rising prices, in turn, have undoubtedly led to higher wages. This is the aspect of the situation emphasized in Mr. Bengough's statement before us, quoted above.

Rising prices enabled employers to pay higher wages and made them willing to pay higher wages in order to maintain and if possible increase their labour force. At the same time, higher prices, by raising the cost of living, gave workers a reason for demanding higher wages. Thus rising prices had both a pulling and a pushing effect on wages.

All this may appear to be arguing in a circle—wages affected prices and prices affected wages—and in a sense it is. For a price inflation includes a wage inflation. They are part of the same general economic process and we doubt if it is possible to disentangle the complex pattern of events since 1939. Certainly more information than is now available to us would be necessary to make such an analysis feasible. Moreover, our inquiry had led us to believe that other factors, such as fiscal and monetary action, external influences and the accumulated demands arising from the war period, had a greater influence on wages and prices jointly than wages and prices had on each other.

It should not be concluded, however, that the relationship between wages and prices is unimportant. Indeed, we would go so far as to say that in the period that lies ahead, this relationship is of the greatest significance for our economic well-being. Our objective is a high and stable level of employment and incomes. The attainment of that objective within a free society will be difficult, particularly for a country such as Canada which is affected so largely by events outside its borders. It will require policies on the part of the government, management, labour and others, designed to reduce and to offset fluctuations in the volume of business activity. For, even if the general economic environment is healthy, unemployment and loss of income can result from internal maladjustments such as those between wages, prices and profits.

In terms of real wages there is a limit to how high they can go. This limit is set by the productivity of the country's resources and this productivity will be increased in the main by technological improvements. These fundamental facts are usually obscured by the emphasis upon money wages. But it is most important that the place of real wages and money wages should be understood. Otherwise an obsession with money wages may lead to rigidities in the economic structure which will be detrimental to every group in the economy.

The importance of the wage problem is well shown by the following statement:

"Labor's interest in the maintenance of stable prosperity transcends even that of management, because while profits may fall more than wages in a period of depression, workers and their families bear the real brunt of hard times. Pushing for the highest possible wage advance is dangerous to the economy in a period when that advance necessitates even higher prices. It is more dangerous if this course is followed when rising labor costs lead to reduction in employment. Wage advances that contribute to inflation are undesirable; but wage advances that may contribute to serious deflation are more so. With the balance between inflation and deflation more closely drawn than it was a year ago, a restrained wage policy is now even more urgent in the interest of labor as well as management.

This admonition should not lead to the assumption that wage principles and profit principles are identical. Profits become unreasonable when they yield more than the amounts which support adequate incentives for production and growth; but there is no upper limit to wages in exactly that sense. Certainly an objective of the American economy is to provide constantly higher real wages and a constantly improving standard of living as rapidly as our resources will permit. Money wages may, however, become too high when they run ahead of the supply of goods so that they lead only to more inflation instead of more consumer enjoyment; or when they attempt to yield to a particular group a larger share of the national output than can be theirs without undue deprivation of others; or when they induce unemployment."¹

RELATIONSHIP BETWEEN WAGES AND PRICES FROM THE STANDPOINT OF THE INDIVIDUAL WORKER

Let us now turn to the second way in which the relationship between wages and prices may be considered, namely from the standpoint of the individual worker. Here the connection between wages and prices is a much less complicated one than that looked at from the standpoint of the economy as a whole. There are also more complete data available for our analysis.

The basic question here is, to what extent is the worker's economic position affected by changes in wages, in prices, or in both? If the wages which the worker receives increase more than the prices of the things he buys, not only do his money wages increase, but his money wages, expressed in terms of what they will buy, or his real wages, also increase. Similarly when his increase in wages is less than the rise in prices of goods and services, his real wages decline.

TRENDS IN REAL WAGES OVER THE PAST DECADE

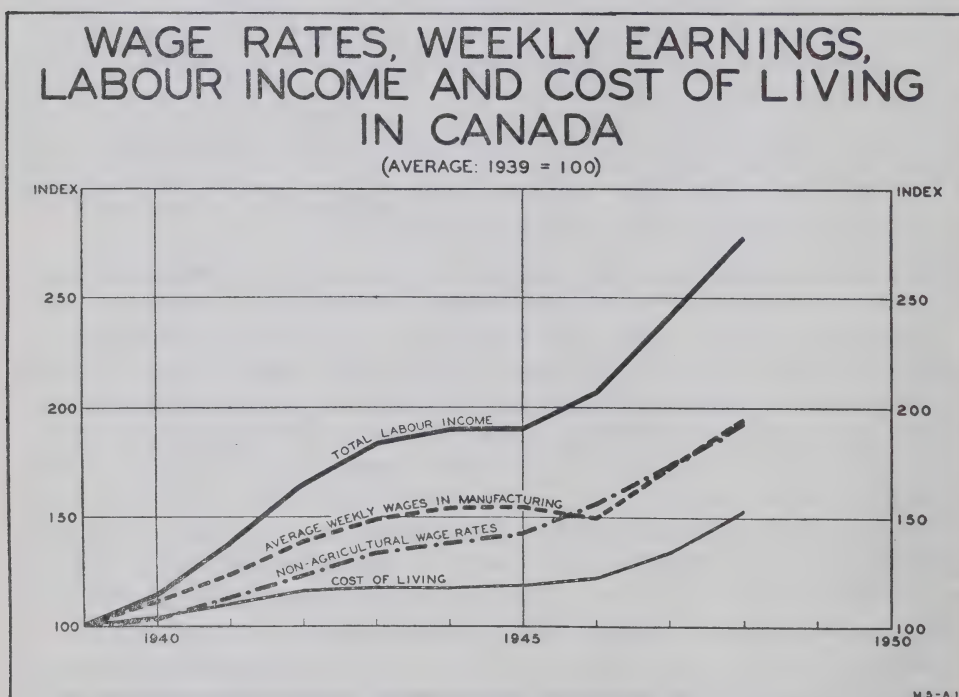
Real wages are computed by measuring the changes, on the one hand, in money income, whether it is expressed in terms of wage rates, earnings per employment period, or total income from wages and salaries

¹The Economic Report of the President to the Congress of the United States, January, 1949, p. 45.

throughout the whole country, and changes, on the other hand, in the prices of the goods and services which the wage-earner buys.

Starting with the year 1939 as a base, the year-to-year changes in average wage rates for non-agricultural workers are shown in the accompanying chart. These may be compared on the same chart with changes in average weekly earnings of wage-earners in manufacturing and with fluctuations from year to year in the total expenditures on wages, salaries and supplemental income for all persons employed in the economy. Broadly speaking, it will be seen that the increases in wage rates during the war years were not quite as high as the increases in wages expressed in terms of weekly earnings. Weekly earnings increased more than hourly rates because of an increase in the number of hours worked per week, increased pay received for overtime work, and shifts of workers to higher paid jobs. As might be expected the great increase in the number of persons employed gave rise to an even larger increase in the total of salaries, wages and supplementary labour income.

CHART VII

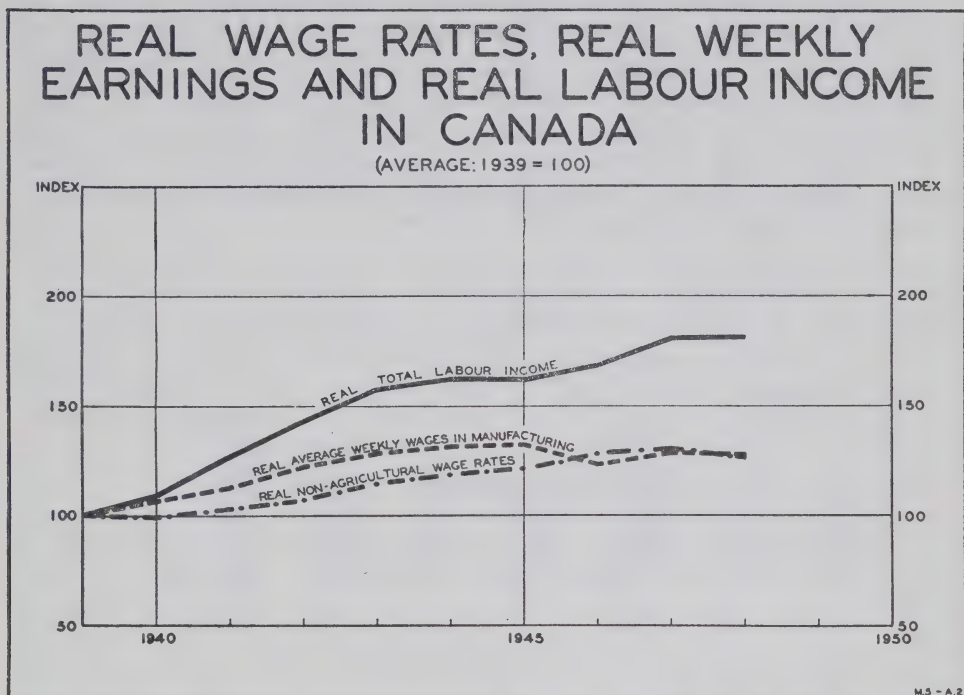


Source: Dominion Bureau of Statistics and Research and Statistics Branch, Department of Labour, Ottawa.

A further comparison may be made on this chart between these changes in wages and the prices of consumer goods and services, as measured by the cost-of-living index. It appears, if one considers only the statistical picture as represented here, that from 1939 to the present, increases in consumer prices have been relatively less than increases in wages.

Before reaching any such conclusion, however, it is necessary to look at the second chart on which the relationship between changes in prices and wages are expressed in terms of real wages. The most significant thing about this chart is that, no matter which of the three money wage series is used, it is clear that real wages have risen substantially since 1939.¹

CHART VIII



Source: Dominion Bureau of Statistics and Research and Statistics Branch, Department of Labour, Ottawa.

There have been, however, so many factors influencing both prices and wages during the past 10 years that it is essential in our analysis to look behind the data shown in these charts. It is important, not only to know what wage and price changes occurred, but to understand, as far as possible, why those changes took place. For convenience our examina-

¹ Chart VII shows annual indexes, taking the annual average for 1939 as 100, for the following series (from bottom to top):

(1) The cost-of-living index, published in the monthly and annual reports, Prices and Price Indexes, Dominion Bureau of Statistics, Ottawa.

(2) Wage rates in leading industries other than agriculture, from Wage Rates and Hours of Labour in Canada, published annually by the Research and Statistics Branch of the Department of Labour, as a supplement to the Labour Gazette. The figure used for 1948 is a preliminary estimate only and is subject to revision.

(3) Average weekly earnings of wage-earners in manufacturing: for the years 1939 to 1945, the index was computed from data by sexes given in the report Weekly Earnings and Hours of Work of Male and Female Wage-Earners in Manufacturing, 1945, by the Census of Industry Branch, Dominion Bureau of Statistics; figures for later years are available in the monthly report Average Hours Worked and Average Hourly Earnings, by the Employment Section, Dominion Bureau of Statistics.

(4) Total labour income: This index is computed from the annual total "salaries, wages, and supplementary labour income", included in National Accounts, Income and Expenditures, 1926-1947, published by the National Income Unit, Dominion Bureau of Statistics. The figure for 1948 is preliminary.

Chart VIII shows the indexes of wage rates, average weekly earnings in manufacturing, and total labour income, adjusted for changes in the cost of living, and thus converted into indexes of real wage rates, real weekly earnings, and real total labour income.

tion is broken down into three periods, the early war years, the control period and the post-war period.

Early War Years

The rapid expansion of production and employment after the outbreak of the war gave an initial stimulus to both prices and wage increases.

On the wages side, the large number of unemployed persons and the still larger number of partially employed workers in 1939, cushioned to a marked extent the impact on wage rates of the substantial increase in manpower requirements. The average earnings of individuals, with many more now employed for longer hours and in higher paying jobs, and the total national wage bill, with much higher employment, both expanded rapidly. These changes in wages both per worker and for the country as a whole, are shown on Chart VII.

As one would expect, wage rate increases began to show up first of all in those industries where either wartime requirements were expanding rapidly such as machinery, shipbuilding, electrical goods and clothing, or in areas where there was a severe shortage of skilled workers. The large scale government expenditures on both producer and consumer goods during these years, combined with the "cost plus" provisions of many government contracts, were additional factors stimulating the wage increases for workers in war and ancillary industries.

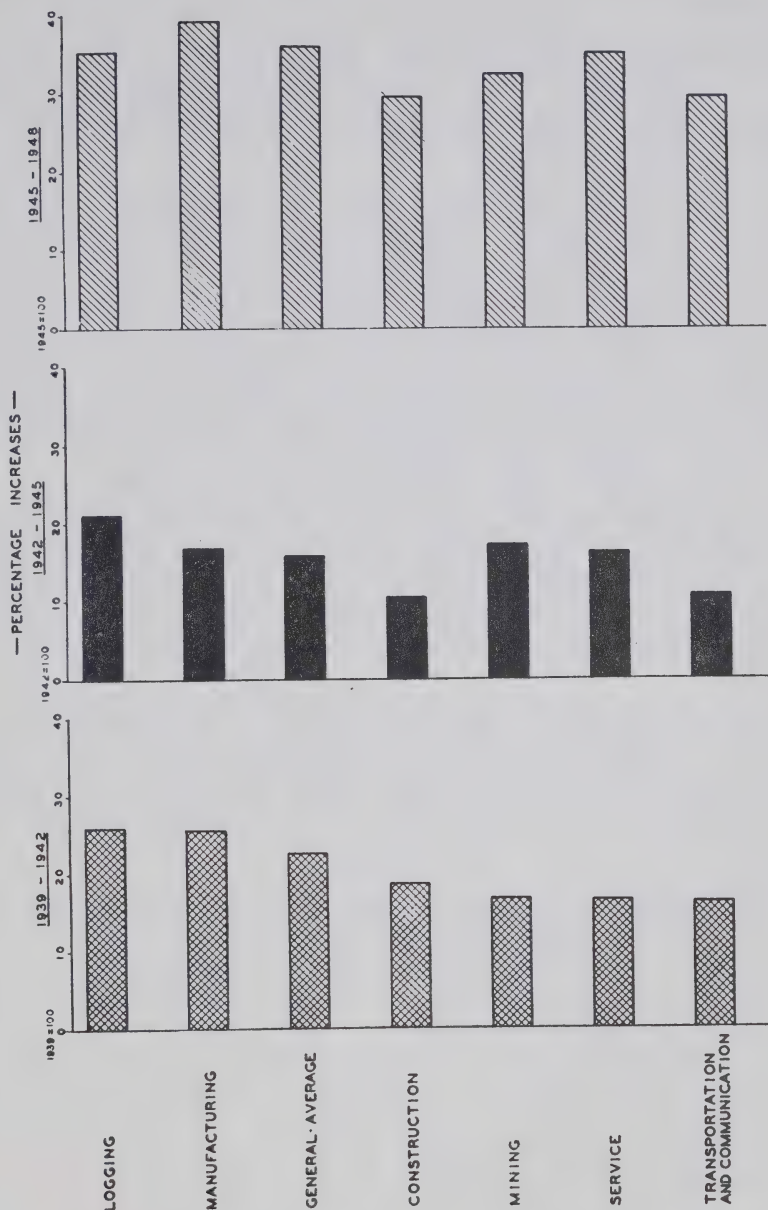
Large scale shifts of workers between industries and areas during these years also had important effects on wages especially on both average earnings and the total national wage bill. Between 1939 and 1943, over 600,000 workers were added to the manufacturing industries alone. In addition to those who were formerly unemployed a large number of these workers came from agriculture; others came from industries not so essential to the war effort, still others came from retirement, schools, and work in the homes, and finally they came from the increase in population.¹ Insofar as these shifts represented transfers from lower paid to higher paid jobs, both average earnings and the national wage bill were expanded even apart from changes in wage rates.

As production expanded it was to be understood that supplies of both raw materials and labour would become less plentiful. This was especially true because of the highly specialized nature of much of the production required for the war effort plus the withdrawal, by the end of the second year of the war, of about 400,000 men and women into the armed services. In an effort to meet the increased labour requirements, hours per day and per week were expanded, which again had an important effect on average earnings. As the war progressed, wage rates in an expanding number of industries also increased due both to the continuing shortage of skilled workers and to the surpluses of manpower, in existence in 1939, now being almost completely absorbed.

¹ Cf. Changes in Population and in the Labour Force. (Issued as a supplement to the Labour Gazette), December, 1945, Research and Statistics Branch, Department of Labour, Ottawa, pp. 20-23.

CHART IX

WAGE RATES IN CANADA (IN SELECTED INDUSTRIES)



M. 4-7-1

The actual and the threatened shortage of goods and services and of manpower led the government to introduce direct controls of both prices and wages in the fall of 1941.

Over the period as a whole from 1939 to 1943 it is clear that substantial increases in average earnings occurred. These increases were due to important shifts in the labour force and to the lengthening of the average period of employment as well as to increases in wage rates. The fact that these first two factors played a part in swelling the earnings of wage-earners explains the larger proportionate increase in the index of earnings shown in Chart VII.

Aside from the increases in wage rates in the individual manufacturing industries closely related to the war effort noted above, a substantial rise also occurred in logging over these initial three years of the war. This increase in logging wage rates compared with the increase in other selected industries may be seen in Chart IX. Wages in the logging industry were forced upward during these years due to the drain of large numbers of physically fit workers into the armed forces and into war industries. Another influence was the greatly expanded construction program of these years which required large supplies of wood products.

An even more substantial increase occurred during these years in wages paid in agriculture. Over the three year period farm wage rates more than doubled.¹ The exodus from the rural areas was partly responsible for this rapid rise in the case of agriculture just as it was in the case of logging. The fact that farm wages were abnormally low in 1939 following several years of depression is another reason for this high proportionate change.

As might be expected, wages increased most in those parts of Canada where the impact of war was most pronounced. This is borne out by the increases in weekly earnings of salary and wage-earners in manufacturing, shown by regions in Table 40. The highest increases were in Ontario and

TABLE 40
PERCENTAGE INCREASES IN PER CAPITA WEEKLY EARNINGS OF
SALARY AND WAGE-EARNERS IN MANUFACTURING,
BY ECONOMIC REGIONS, 1939-1948

REGION	PERCENTAGE INCREASE		
	1939 Average to May 1, 1942 (1939 = 100)	May 1, 1942 to May 1, 1945 (1942 = 100)	May 1, 1945 to May 1, 1948 (1945 = 100)
Maritime Provinces	26.5	21.5	13.1
Quebec	27.1	20.1	19.3
Ontario	27.7	11.8	23.6
Prairie Provinces	14.3	11.2	21.4
British Columbia	25.2	15.2	18.3
Canada	26.3	15.0	21.4

Source: Dominion Bureau of Statistics, Ottawa.

¹ Cf. Prices and Price Indexes, 1944-1947, p. 51, Dominion Bureau of Statistics, Ottawa.

Quebec, where war plants tended to be concentrated, and in the Maritimes, where a considerable stimulus was given to shipping, shipbuilding, iron and steel, and related industries.

The Control Period

While the first wage control order was introduced in November, 1941, at about the same time as the price ceiling order, it was not until 1943, or in fact early in 1944, that wage controls came to have their most extensive applications. Under the initial order, wage rates for most industries other than agriculture were stabilized at their level of November 15, 1941. Allowance, however, was made for increases in wages in two ways. First, a bonus was required to be paid proportionate to increases which might occur in the cost-of-living index. Second, increases in wage rates were also permitted upon application to the Regional or National War Labour Boards in cases where the rates being paid by the firm were found to be lower than comparable rates in a comparable locality. The controls were tightened during 1943 through placing greater authority in wage matters in the hands of the National War Labour Board. This board was given the power to review the decisions of the Regional War Labour Boards and to hear appeals from their findings. The wage bonus plan, introduced in 1941, based on increases in the cost-of-living index, was discontinued at the end of 1943 and existing cost-of-living bonuses were incorporated into basic wage rates. A measure of flexibility was retained through permitting some increases in cases of gross inequality or gross injustice, but the increases allowed were made on a more uniform basis through the centralized control of the National War Labour Board.¹

In addition to the direct control over wages, the manpower regulations introduced under National Selective Service in 1942 had an important stabilizing influence on wages at this time. The fact that workers were moving into industries where the need was greatest rather than waiting until wages had risen high enough to attract them away from their present jobs, tended to ease the upward pressure on wages. National Selective Service regulations were also designed to increase the available supply of labour. Many measures were adopted to facilitate the entry into the labour market of married women, students, retired persons and others not ordinarily part of the labour force. In general, this controlled organization of the labour market helped offset the effect of shortages of manpower.

The effectiveness of these wage control measures and the manpower regulations may be judged in various ways. It is clear first of all from Chart IX that the percentage increases in wage rates in the various industries shown were less during the three years of control than during the similar period earlier in the war. The fact that these percentages are less is particularly significant when it is realized that shortages of manpower had become even greater.

¹ For statistics on applications made to the National and Regional War Labour Board, see *The Labour Gazette*, May, 1945, p. 647; December, 1945, p. 1766; and September, 1946, pp. 1201-1202. Over 80 per cent of the total number of applications made were granted in full.

An illustration of the effectiveness of the controls is presented in Table 41. It will be seen from the year-to-year percentage increases that, with few exceptions, the wage increases which occurred following the tightening of controls in 1943 were quite small.

TABLE 41
PERCENTAGE INCREASES IN WAGE RATES IN SELECTED INDUSTRIES

INDUSTRY	PERCENTAGE INCREASE		
	1942-1943	1943-1944	1944-1945
Logging	13.7	2.1	4.9
Manufacturing	9.0	3.4	3.6
Mining	6.1	9.0	1.3
Services	9.3	1.3	5.0
Transportation	9.1	0.8	0.4
Communications	8.8	0.4	2.6
General Average	9.1	3.1	2.8

Source: Wage Rates and Hours of Labour in Canada, 1947: Supplement to The Labour Gazette, October, 1948

The continued increase in farm wages over this period stands in sharp contrast to the situation in the industries covered by the control orders. The actual percentage increases were 52 and 16, respectively. It must be remembered, however, that the drain of manpower out of agriculture continued during the early part of this period. The drain became so serious in the face of mounting food requirements that special measures were necessary to meet farm labour shortages. These included the freezing of manpower on the farm, organized transfer of farm workers to meet seasonal needs and the employment of special groups of workers, including students, conscientious objectors, prisoners of war.

The effectiveness of the wage control shows up in the weekly earnings' data for manufacturing in Table 40. In every region, the percentage increase in earnings during the control period was less than it was during the earlier war period. The differences in the amount of increase from region to region between 1942 and 1945 tend to reflect the fact that the Regional War Labour Boards frequently permitted increases in low paying jobs. They also suggest, at least in the Maritimes and Quebec, that the earnings were still rising due to the lengthening of the average period of employment and to shifts from low to high paying jobs. The fact that the increase in British Columbia was once again higher than it was in the Prairie provinces arises no doubt primarily from the stimulus to production and employment in this region following the spread of World War II to the Pacific. The growth of the shipbuilding and aircraft industries was also an important factor. The increased employment on the Pacific coast in this and other war industries exerted a strong upward push on average earnings.

The success of wage control during these critical war years must be judged not only by the slowing down of the rise in wage rates, but perhaps still more by the success of price control, to which wage control was intended as a support. Over the three year period, as will be seen in Chart VII, there was only a small increase in the cost of living.

Through the control measures taken on the price side, and especially through the payment of food subsidies, which amounted to an indirect wage bonus, it was to be expected that the rise in the cost of living would be held even more effectively than the rise in wage rates. Besides, wage control did not imply a rigid wage freeze. It had to be firm enough to prevent inflationary increases but flexible enough to allow for essential adjustments. Real wages, expressed in terms of real wage rates, rose more rapidly during the control period than they did during the earlier years of the war when the increases in consumers' prices and wage rates were more nearly the same. This is borne out by the data presented in Chart VII.

While real wage rates were rising during this control period, the reverse appears to have been the case with real weekly earnings, at least in manufacturing. These had risen rapidly from 1939 to 1943, but thereafter tended to level off. Probably the chief reason for this was that the major shifts in employment had taken place by 1943, although smaller movements continued to occur chiefly from non-essential to essential jobs. The average number of hours worked per week was reduced by the enrolment of an increased number of part-time workers. Wherever this meant a reduction of overtime, the drop in earnings was further affected by any difference which existed between straight and overtime wage rates. The hours of full-time employees were also reduced slightly in some cases

TABLE 42
PROPORTION OF FEMALE WORKERS IN MANUFACTURING,
AND MALE AND FEMALE HOURLY EARNINGS

Year	Females per 1000 Workers Employed	AVERAGE HOURLY EARNINGS		
		Male	Female	Female Rate as Percentage of Male Rate
1939	220	46	28	61
1940	218	49	29	59
1941	226	54	32	59
1942	260	62	37	60
1943	282	67	43	64
1944	286	71	48	67
1945	263	74	47	63
1946	245	81	50	62
1947	232	—	—	—
1948	226	—	—	—

Source: Weekly Earnings and Hours of Work of Male and Female Wage-earners in Manufacturing, (annual until 1945), Census of Industry, Dominion Bureau of Statistics; and Annual Review of Employment and Payrolls in Canada, 1947, and other recent publications, Employment Section, Dominion Bureau of Statistics, Ottawa.

due to an increase in shifts and in others to a recognition that there is a negative correlation after a time, between efficiency and hours of work.¹

Still a further factor tending to reduce average weekly earnings was the increasing number of women workers during these years. The proportion of female workers in the total working in manufacturing and a comparison of male and female hourly earnings are shown in Table 42.

Although on balance, the wage and price data available seem to show an increase in the real income of the worker during the second half of the war, it seems doubtful whether this was really the case, due to the increases in income taxes,² the increased shortages of many goods and services, the lowered quality of some commodities, and the other incommensurable hardships of wartime.

Post War Period

It was inevitable, during the first year after V-E day, that there would be many major adjustments in the economy. Demobilization, de-control and reconversion plans generally all brought with them temporary disturbances in both the labour and commodity markets. Control machinery was retained during the first year of reconversion.

The National Selective Service machinery was used to move workers to peacetime jobs. Their primary task now was to find jobs for people rather than people for jobs. But the layoffs from war plants, the return of war veterans, the industrial disputes of 1946, and the continuing shortages of many goods and services all had their effect on the average earnings of wage and salary workers. As a result of this, average weekly earnings at least in manufacturing, dropped through this initial post-war year, while

¹Cf. Studies of the Effects of Long Working Hours, Parts 1 and 2, Bulletins Nos. 791 and 791-A, and Hours of Work and Output, Bulletin No. 917, Bureau of Labor Statistics, U. S. Department of Labor, Washington, D.C.

²Taking a wage-earner with annual earnings of \$2,000, and assuming that this income remained constant throughout the period, the changing impact of Federal income taxes, according to selected types of marital status, is shown below.

INCOME TAX PAID ON GROSS INCOME (EARNED) OF \$2,000, CANADA, 1939-1948

(in dollars)

Year	Single Worker	MARRIED WORKER		
		No Dependents	One Dependent	Two Dependents
1939	36	Nil	Nil	Nil
1940	135	55	22	12
1941	300	145	71	42
1942	299(80)	214(100)	160(80)	106(53)
1943	599(160)	428(199)	320(160)	212(106)
1944	519(80)	329(100)	240(80)	159(53)
1945	421	220	154	102
1946	369	192	134	89
1947	265	93	32	Nil
1948	219	69	21	Nil

Provincial income taxes payable in some cases up to the end of 1941 are not included. Compulsory savings are included in the totals for 1942, 1943, and 1944, the amounts of compulsory savings being shown in brackets. The effects of family allowance payments are omitted, and the full exemption is allowed for each dependent.

Source: Department of National Revenue, Ottawa.

wage rates continued to increase. The other wage series shown in Chart VII, namely, the national wage bill, expanded mainly as a result of a new increase in the labour force.

Total employment in November, 1945 was 4,326,000; in the same month in 1946 it was 4,733,000. This increase occurred largely as a result of the expansion of production in industries curtailed during the war.

Following these temporary post-war adjustments, the trends of employment, production, prices and wage rates have been upward. The easing and final removal of wage controls during 1946 and the relaxation of price controls coincided roughly with the completion of reconversion and the resumption of an upward trend in employment.

Trade union membership doubled during the war but wage demands previous to 1945, were held in check by wage control and by the support which union leaders gave to government wartime economic policies.¹ Following the end of the war, especially when price controls were being removed, and actual or threatening increases were occurring in the cost of living, when general wage increases had not been permitted for several years, when the profit position of many industries had improved and the taxation of corporations was being eased, it was natural that unions should feel the urge to press their demands for higher wages. The continuing labour shortages in many industries and the large backlog of demand for goods and services have been important related conditions.

Average weekly earnings of wage-earners in manufacturing, shown on Chart VII have displayed a consistent upward trend following the temporary drop after the war. All manufacturing groups, however, have not experienced an upward trend in average earnings. In those branches of manufacturing which were most heavily engaged in war production in 1945, a fairly sharp decline in average weekly earnings has occurred along with a substantial drop in employment. When allowance is made for the rise in the cost of living following the war, as is done in Chart VIII, the resulting figures for real earnings show a much more modest gain in 1947, and in fact a drop in 1948. Looking only at the statistical picture presented here, it appears that the average wage-earner, at least in manufacturing, was nearly as well off in terms of real income at the end of 1948 as he was at the end of the war.

This conclusion is somewhat modified, however, when consideration is given to the effect of reduction in income taxes.² If we also take into account the alleviation of most of the wartime scarcities, with the exception of housing, at least in some areas, and of the other hardships and uncertainties of wartime, it seems probable that most workers are as well off as they were in 1945. The most important point, though, appears to be

¹ Membership in trade unions increased from 359,000 in 1939 to 711,000 in 1945 and to approximately one million by the end of 1948. Cf. *Labour Organization in Canada*, published annually, Research and Statistics Branch, Department of Labour, Ottawa.

² See footnote 2, p. 184.

that in spite of the considerable changes in prices and wage rates, which have occurred since the end of the war, the real income position of the average worker has fluctuated within a relatively narrow range.

Over the whole decade, from 1939 to 1949, it seems clear that the economic position of wage-earners in Canada has improved. This is true in the case of those who were employed in 1939. It is also true, of course, for the many thousands who were unemployed at that time. In some ways it is better to compare the position of workers in Canada today with what it was in 1929, a period when there was also a high level of employment throughout the economy. Such a comparison is brought out in Table 143. One of the most striking features brought out by this table is the fairly steady upward trend in real wage rates throughout the whole 20 year period. This upward trend has been more rapid since 1939 than before. Expressed in terms of an annual percentage increase, the figure for the decade of the 'forties has been 2.6 compared with 1.9 for the 'thirties.

The increase in the labour force by 1948, and the rise in wage rates, are chiefly responsible for the large gain in total labour income over 1929. The drop in labour income in 1939 was of course due mainly to unemployment. Total labour income as a percentage of national income has tended to vary inversely with the absolute size of these two amounts, being much larger in 1933, and somewhat smaller in 1948, than in the other years shown.

SUMMARY AND CONCLUSION

In the discussion in the first part of this chapter certain general connections between wages and prices were pointed out. It was concluded that movements in both wages and prices are determined and conditioned to a greater extent by other more basic forces in the economy than they are by each other. It follows that, generally speaking, measures designed to influence these more basic forces and thus to maintain over-all economic stability are more effective than direct controls over prices or wages or both. This appears to be particularly the case at present when the supply and demand of most goods and services are in fairly close balance.

From the standpoint of the individual worker, there is little doubt, judging by our analysis in the remainder of this chapter, that real wages, for by far the majority of Canadians, have increased substantially since 1939. The best guarantee that an upward trend in real wages is maintained in the future is a continued improvement in productivity of both labour and management. Provided labour-management relations remain on a satisfactory basis, it seems reasonable to expect such an increase during the next few years as a result of current post-war developments, such as the renovation and expansion of industrial plants and the exploitation for peacetime use of wartime technological advances.¹

¹See Wages (a) General Report, International Labour Conference, 31st Session, San Francisco, 1948, pp. 198-199 and F. C. Mills, "Living Costs, Prices and Productivity" in Review of Economics and Statistics, February, 1948, pp. 6-8.

TABLE 43

INDICATORS OF THE ECONOMICS POSITION OF LABOUR, 1929-1948

(Six of the items are index numbers on the base 1929 = 100)

	1929	1933	1939	1944	1948 ^a
Cost of Living	100	78	83	98	127
Wage Rates, Agricultural	100	47	67	173	230 ^b
Wage Rates, Non-Agricultural	100	86	101	139	198
Real Wage Rates, Non-Agricultural	100	111	121	142	156
Real Wage Rates, Non-Agricultural: Average Annual					
Percentage Increase during Preceding Decade	—	—	1.9	—	2.6
Total Labour Income (including Military Pay)	100	63	92	210	254
Total Labour Income as Percentage					
of Net National Income	61	75	61	62	56
Employment in Eight Leading Industries	100	70	96	154	165

a) All 1948 figures are preliminary estimates, subject to revision, except cost-of-living indexes and agricultural wage rates.

b) For April, 1948.

Sources: Various publications of the Departments of Labour, and Trade and Commerce, Ottawa.

CORPORATE PROFITS AND PRICES

THERE is undoubtedly a widespread feeling, and the view was expressed before us on a number of occasions, that high profits earned by business corporations are partly to blame for the recent rise in prices. In examining this aspect of the problem we have found the relationship more complicated than is perhaps generally realized.

Corporate profits can be defined as the returns accruing to the equity of stockholders, or ownership interest in the corporation. As such they are a residual return. The owners receive whatever is left over after all other claimants have been paid. For this reason corporate profits are subject to more extreme fluctuations than other forms of income. They are a residual claimant even with respect to the total earnings of capital. A substantial part of the total capital investment in corporations is financed by means of various short or long term creditor obligations. Bank loans and accounts payable are perhaps the most important source of short term funds whereas most of the long term funds are obtained through bond issues.¹ Each of these creditor obligations is paid at some fixed contract rate and has a prior claim on the earnings of capital. Corporate profits consist of the remainder.

However, it is not generally realized that corporate profits are not the same as an economic profit. A corporate profit is an accounting profit, the net income available to pay dividends. An economic profit is what remains after all initial costs, such as an interest return on the equity capital, is allowed. An economic profit is a much smaller amount. Considerable confusion arises because the economist talks about economic profit, the public about corporate profit.

Under an economic system of the free enterprise type such as exists in Canada, corporations and other forms of business organizations are normally expected to seek maximum profits. Using their judgment as to the price the market will allow and taking into consideration their costs they set a price which will yield them the greatest profit. When prices have been established on this basis a further advance in prices will decrease rather than increase total profits because of reduction in sales. The justification for such a system is that it leads to an optimum use of the country's resources and where competition is free the high profits in particular industries will attract new firms into the field until a competitive or normal rate of return is restored. The higher prices offered serve to attract labour and capital into fields whose products are valued most highly. In the past few years high prices have undoubtedly been an important factor in attracting labour and capital into fields where shortages were most acute.

¹Of the total assets held by Canadian corporations in 1946, 21 per cent was financed by means of short term credits (current liabilities), 16 per cent by funded debt and the remaining 63 per cent represented the stockholders' interest.

But even though this is so, prices and profits may remain at comparatively high levels for some time, particularly under the circumstances that have existed in Canada in recent years. As one of the officers of the Canadian Chamber of Commerce said before us, "I think it would have to be admitted that in periods of abnormal scarcities . . . there has been an enlargement of profit margins."¹

At the end of the war, competition in many lines of endeavour was limited by lack of productive facilities. Competition in the retail trade for example, was limited by the lack of store space in which new retailers could start up a business. This applied in many lines of activity. It was primarily a reflection of the accumulated shortage of facilities which had developed during the depression of the 'thirties and the war period. Over a period of years new retail stores, new factories, new theatres and new establishments of many other types are being constructed and these are gradually restoring more competitive conditions to many lines of business. But this is a development that requires time. It could not be assumed at the war's end that competition would immediately be sufficient to prevent large profits to the owners of the countries' stock of capital.

It is difficult to define the concept of normal profits with any degree of precision. The large volume of capital investment which is taking place today indicates that the expected rate of return on new investment is high. As the quantity and quality of our capital goods increases, actual rate earned might be expected to decline towards some normal rate. But the rate on new investment is subject to frequent shifts as new inventions are made, new products developed and as the population grows. Thus the tendency for the actual rate of return to approach a normal rate is only a tendency. If it were anything else, of course, the free economy would be robbed of one of its dynamic elements.

A further qualification is necessary during an inflationary period. In these circumstances the costs and expected demands on which the corporation bases its estimate of the most profitable price are not very precisely determined. The corporation must make some guess with respect to the amount it expects costs and incomes to rise. But if all groups in society who are active in establishing prices, and corporations are one of the most important of these, base their decisions on the expectation that other prices will increase rapidly the result may be to accelerate for the time being, at least, the upward movement in prices. More restraint on the part of all groups including corporations might therefore result in a less rapid price increase.

HOW PROFITS AFFECT PRICES

Finally, as we will discuss in Chapter 11, it cannot be assumed in all cases that profits are regulated by free and open competition. To an increasing extent business is resorting to practices designed to protect itself against the harsh correctives of the free market system.

¹Evidence, Royal Commission on Prices, p. 2229.

Corporate profits may affect prices in a number of different ways. They result from higher prices as market conditions make it possible for business firms to increase prices. This is perhaps the most commonly recognized relationship between profits and prices. Corporate profits may also have an effect on prices through the way in which they influence spending, particularly spending on capital goods. Finally corporate profits may exert an indirect influence on prices by means of the part which these profits play in the wage price spiral.

In this section we shall examine each of these relationships in turn. This examination cannot in any sense be definitive for the information available to us is by no means all that could be desired. But, we felt that some discussion was better than none. We hope that it will help to clarify at least a few points and to indicate the lines along which further study might be pursued.

Some ambiguities regarding the meaning of reported profits during a period of rapidly changing prices have made it necessary to give some attention to the accounting concepts used in determining profits. Special consideration is given to the way in which accounting practices in treating inventories and depreciation allowances affect reported profits. In addition, because we have been primarily concerned here with prices which have played an important part in the rise in the cost of living, it has been necessary to give special attention to the extent to which the increase in corporate profits has been due to a rise in export prices.

Before examining these points in detail, we should like to stress that our investigation in this field has been severely hampered by the lack of any up-to-date statistics on the amount of corporate profits. The information available on corporate profits during 1948 is still extremely scanty and because of this we have been forced to confine our statistical analysis primarily to the period ending with 1947.

THE VALUATION OF INVENTORIES

During a period when prices are changing, reported corporate profits are affected to a substantial extent by the accounting methods used for valuing inventories. At the present time three of the most widely used methods for valuing inventories in Canada are the "average cost", "first in first out" and "last in first out" methods. When prices are rising the profit reported where the "last in first out" method is used, will be smaller than if either of the two former methods had been used. This arises out of the way in which costs are charged to sales under each of the methods. When a "first in first out" method is used the earliest purchases in point of time are charged to sales first. This means that in a period of rising prices the firm is continually charging to sales the cost of materials which were purchased several months earlier at lower prices. At the same time it is replacing these materials in its inventory at the higher prices prevailing at the time. Consequently, it will show a higher profit merely because it is continually charging to sales the cost of materials purchased several months

earlier. If on the other hand this same firm had followed a "last in first out" method of inventory accounting, its reported profit would be lower. Where this latter method is used the most recent purchases (in a period of rising prices the highest priced materials on hand) will be charged to sales first. This means in effect that the current replacement cost of materials is charged to sales during the accounting period. This results in a smaller profit during a period of rising prices. When prices are falling the reverse is true. In such a period profits will be higher or losses will be smaller when "last in first out" is used than where the "first in first out" method is used.

Over a period when prices rise and then fall again, the results obtained for the period as a whole will be approximately the same for each of the methods. Thus the chief effect of the "first in first out" method as opposed to the "last in first out" method is to increase the amount of variability shown in reported profits and losses. The extra profit or loss shown where the "first in first out" method is used is frequently called an inventory profit or loss. It is a profit or loss which arises from the fact that firms sell at the market price which is related to the replacement cost, but calculate their profits by computing costs on a different basis, namely original cost of inventory.

Finally it should be noted that once the rise in prices stops, reported profits of a firm whose profit statement has been inflated by the inclusion of inventory profits, will decline even though it continues to charge the same margin of profit above its replacement cost and enjoys the same physical volume of sales. On the other hand profits of a firm using a "last in first out" method in these circumstances would remain at about the same level.

The "average cost" method gives a result somewhat intermediate between that obtained by using the above two methods, but in general it is much closer to the "first in first out" method. Where it is used an average of all the materials on hand, both the more recently purchased higher-priced materials and the lower-priced materials purchased at an earlier date, is charged to sales.¹

It must be recognized that the amount of inventory profit or loss shown will depend on the extent to which business firms use replacement costs as a basis for setting their selling prices. While many of the firms which appeared before us indicated that they had used current replacement costs as a guide in setting their selling prices, there were some instances where this was not true. For example there is evidence that retail shoe stores in the autumn of 1947 continued to sell their stocks on hand with little advance in price even though replacement cost of shoes had advanced substantially. Further during at least part of the post-war period when prices were still under control, some business firms were not allowed to advance their prices until they had used up all of the lower cost material in their in-

¹An example of the results obtained by applying each of these methods to an identical set of hypothetical data is given in Evidence, Royal Commission on Prices, pp. 1730-34.

ventories or repaid the subsidy content of their inventories. This seems particularly to have been true where subsidies were being removed. But although in these instances a firm using a "first in first out" or "average cost" method of inventory accounting may not make any inventory profit it will still find it necessary to find funds to finance the increased value of its inventory. In order to finance this increased value of inventory it may have to draw on its profits or obtain additional funds from other sources such as bank loans. Those firms which do make a substantial amount of inventory profit find this profit is automatically invested in financing the increased value of their inventories and hence is not available to be used for other purposes such as long term capital investment or the payment of dividends.

It has not been possible to make any exact estimate of the amount of inventory profits which are included in the increased profits reported by corporations during the last few years. However, it is possible to suggest roughly the order of magnitude of the amount which may be involved. At the end of 1945 the total investment in inventories of all Canadian corporations amounted to a little less than two billion dollars. Between 1945 and 1947 the index of wholesale prices increased by over 25 per cent. If we take one-half of this price rise as a rough measure of the extent to which inventory profits were earned it gives an estimate of \$250 million. This is slightly more than 20 per cent of the total increase in corporate profits before tax during this period. The above estimate should be regarded as a very rough guess which might be subject to a substantial margin of error. Nevertheless it does indicate that at the present time corporate profits are inflated to a substantial extent by inventory profits.

DEPRECIATION RESERVES

The amount which business firms are allowed to charge to their reserve for depreciation is another factor which has an important effect on the amount of reported profit. Under Canadian Income Tax regulations the charges business firms are allowed to make for depreciation reserves are based on the original cost of the machine, building, or capital item in question. Once the reserve equals this original cost, no further depreciation can be charged. Much of the capital equipment in use today was purchased during the 1930's or even earlier. In some cases the equipment has been fully written off and so no depreciation is charged. Because of this the depreciation allowances which are made today may not be sufficient to replace at today's higher prices the amount of equipment which wears out each year. Some writers have suggested that because of this, reported profits are overstated. The annual charge to the reserve for depreciation should be increased, they say, so that it would be sufficient to replace at current costs the capital used up during the year. Profits would then be reduced by a similar amount. They argue therefore that profits are artificially high.

It is possible to recognize that for the country as a whole there is an element of truth in this argument without at the same time agreeing that

individual firms should be allowed to base their charges to depreciation for tax purposes on current replacement costs. When all business firms are considered, the amount set aside for depreciation during the past few years may fall considerably short of what is needed to replace at present costs the capital which has worn out during this period. It is particularly important to recognize this when attempting to determine the rate at which Canada's supply of capital is increasing.¹ But for the individual firm the charge to depreciation reserve represents the return in monetary form of the firm's original investment.

The amount of depreciation that has been charged by corporations and other business firms during the last few years is affected by the special provisions for depreciation under the Income War Tax Act. Under Order-in-Council PC 8640, November 10, 1944, business firms are allowed to charge depreciation for tax purposes against approved investment expenditures at not more than double and not less than one-half the rates normally allowed.² This provision applies until 80 per cent of the capital project has been written off; thereafter the normal rates apply. Investment expenditures amounting to \$1.4 billion have been approved under this arrangement. It may be safely assumed that at the present time, when incomes and tax rates are comparatively high, corporations with projects under these provisions have been taking advantage of their option to charge depreciation at about double the normal rate. The normal rate at which depreciation is charged varies with the type of capital involved and no exact information is available on the rates which would be charged against these projects. However, it is evident that the amount involved is substantial. If the average normal rate of depreciation were five per cent the annual depreciation charged at this rate would amount to \$70 million. Charging depreciation at double the normal rates would result in an annual addition of \$70 million to depreciation reserves, thus partially offsetting the fact noted above that depreciation allowances based on original cost are insufficient to replace at today's prices the amount of capital which is consumed in turning out our current output.

PROFITS FROM EXPORTS

Before proceeding to a general consideration of the relation between corporate profits and prices it is necessary to give special attention to profits which are earned primarily in the export industries. A number of companies appearing before us admitted that they had earned very large profits but they argued that these were earned almost entirely from the sale of goods on the export market and because of this, these profits had not contributed to the rise in the Canadian cost of living.³ This point is particularly important in Canada because of our large volume of exports. In 1947, exports of goods and services amounted to 27 per cent of Canada's Gross National Product. Though there is no detailed evidence on the point, it seems reasonable to assume that an even larger percentage of the in-

¹Cf. Chapter 5, The Investment Boom.

²This provision is available only on projects approved and completed before March 31, 1949.

³See particularly the evidence in fertilizers. One fertilizer company charged considerably higher prices on export sales than on domestic sales. Evidence, Royal Commission on Prices, p. 130.

creased corporate profits of the past few years have arisen from sales on the export market. Pulp and paper, lumber, base metals and flour are just a few of the commodities which have had a large export sale at extremely favourable prices during the past few years. In a sample group of 665 companies, 41 companies in two industrial groups that sell to a large extent on the export market, pulp and paper and non-ferrous metals, showed an increase in profits before taxes from the \$119 millions in 1945 to \$260 millions in 1947. This increase amounts to over 60 per cent of the increase of \$232 millions reported by the 665 corporations in the sample during this period.¹

PROFITS BEFORE AND AFTER TAXES

A number of criteria are available for judging the part corporate profits have played in the rise in prices. For all corporations the relation of total profits to Canada's Gross National Product provides some guide.² For individual corporations or groups of corporations the relation between profits and sales offers a similar basis of measurement. Another basis for judging the size and importance of corporate profits is by comparing them with the firm's investment. In each instance corporate profits before and after tax can be considered.

This last point requires some elaboration. Taxes on corporate income are levied as a percentage of the corporation's total net income or, in the case of the excess profits tax, as a percentage of the income earned over a certain amount. Most economists believe that in the short run such taxes do not affect the price that will yield the corporation the maximum amount of profits before tax. Whether any increase or decrease in the tax would be passed on to the consumer in the form of higher or lower prices over a longer period of time is more uncertain. We, therefore, have used both types of data. They are shown in the following table, where it will be noted that they amounted to \$1.8 billion before taxes and \$0.9 billion after taxes, in the year 1947.

TABLE 44
CORPORATION PROFITS^a
(millions of dollars)

Year	Before Taxes	Corporation Income ^b and Excess Profit Taxes	After Taxes
1939	587	123	464
1940	790	337	453
1941	1,094	539	555
1942	1,279	658	621
1943	1,274	669	605
1944	1,181	630	551
1945	1,198	632	566
1946	1,387	699	688
1947 Prelim.	1,789	840	949

a) Excluding approximately \$30 million each year for interest and dividends received by corporations from abroad.

b) Includes withholding taxes of \$35 million in 1947, and smaller amounts in preceding years.

Source: Dominion Bureau of Statistics, Ottawa.

¹Statistical Summary of the Bank of Canada, November and December, 1948.

²Cf. Chapter 2, The Course of Prices and National Income since September 1939.

We have not dealt specifically with profits accruing to unincorporated business. Net income of unincorporated business is placed in a category separate from that of incorporated business because it includes a mixture of salaries and investment income, which could only be separated on a completely arbitrary basis. The two main forms of unincorporated business income, from which "pure profits" cannot be separated, are net income of other unincorporated business, and net income of farm operators from current farm production.

TABLE 45
NET INCOME OF AGRICULTURE AND OTHER UNINCORPORATED BUSINESS
(millions of dollars)

Year	Net Income of Farm Operators from Current Farm Production	Net Income of Other Unincorporated Business	Total Net Income of Unincorporated Business
1939	461	430	891
1940	508	483	991
1941	548	587	1,135
1942	1,089	664	1,753
1943	969	690	1,659
1944	1,213	749	1,962
1945	971	851	1,822
1946	1,130	1,024	2,154
1947 Prelim.	1,235	1,119	2,354

Source: Dominion Bureau of Statistics, Ottawa.

RELATION OF PROFITS TO GROSS NATIONAL PRODUCT

Some idea of the relation of corporate profits to prices is provided by comparing the increase in corporate profits with the increase in the total value of production of goods and services as measured by the statistical total, Gross National Product. Since corporate profits are not related in any way to the direct purchase of services by the government, which consist largely of military pay and the salaries of civil servants, it was deemed preferable to compare corporate profits with Gross National Product after deducting this part of government expenditures. This last total will be termed adjusted Gross National Product.

TABLE 46
CORPORATE PROFITS AND GROSS NATIONAL PRODUCT,
CANADA, 1939, 1945 and 1947
(millions of dollars)

	1939	1945	1947	NET CHANGE	
				1939 to 1945	1945 to 1947
1. Gross National Product	5,598	11,732	13,375		
2. Government Expenditures on Direct Services	431	1,777	896		
3. (1)-(2) G. N. P. Less Government Expenditures of Direct Services	5,167	9,955	12,479	4,788	2,524
4. Corporate Profits before Tax	587	1,198	1,789	611	591
5. (4) as a Percent of (3)	11.3	12.0	14.4	12.8	23.4
6. Corporate Profits after Tax	464	566	949	102	383
7. (6) as per cent of (3)	9.0	5.7	7.6	2.1	15.2

Source: Dominion Bureau of Statistics, Ottawa.

From the above data it is evident that corporate profits considered either before or after tax were not an important cause of the rise in prices between 1939 and 1945. On the other hand, between 1945 and 1947, corporate profits both before and after tax increased at a substantially higher rate than our adjusted total of Gross National Product. For this period 23.4 per cent of the increase in the value of adjusted Gross National Product was due to the increase in corporate profits before tax and 15.2 per cent was due to the increase in corporate profits after tax. In both instances these percentages are substantially higher than the average relation of corporate profits to adjusted Gross National Product as shown in the first three columns of lines numbered five and seven of the above table. Even allowing for the inclusion of some inventory profits in these totals and the understatement of depreciation allowances, it would seem that increasing prices resulted not only from rising costs but contained a higher margin of profit. Some part of this increase is, of course, the result of the high profits earned on export sales. It also may be noted that corporate profits after tax in 1947 were a smaller percentage of adjusted Gross National Product than they were in 1939.

RELATIONSHIP OF PROFITS TO SALES

There are some data on the profits and sales of different types and sizes of corporations though the data now available do not go beyond 1946. The relation between the profit and sales of a corporation varies with the industry, the degree of integration and size of the corporation and even with the way in which it is financed. In an industry where a large amount of capital equipment is used relative to the amount of materials and labour

TABLE 47

CORPORATE PROFITS BEFORE TAX AS A PER CENT OF GROSS SALES
OR REVENUE BY INDUSTRIES, TAXATION YEARS
1944, 1945 and 1946

Industry	Profit before Tax as a Per Cent of Gross Sales or Revenue		
	1944	1945	1946
Agriculture, Fishing and Forestry	4.65	2.36	5.49
Mining	16.27	17.97	15.64
Manufacturing	9.07	8.36	9.60
Construction	7.19	7.68	10.54
Public Utilities	17.05	16.62	14.02
Wholesale	3.88	3.65	4.18
Retail	6.26	6.25	6.58
Service	9.24	8.91	8.81
Finance	20.31	19.88	17.78
Unclassified	4.78	5.94	3.43
Average	8.76	8.23	8.69

Source: Taxation Statistics, Department of National Revenue, Ottawa.

TABLE 48

CORPORATE PROFITS BEFORE TAX AS A PER CENT OF GROSS SALES
OR REVENUE BY INCOME CLASS OF COMPANIES REPORTING A
PROFIT, TAXATION YEARS
1944, 1945 and 1946

Income class	Profit before Tax as a Per Cent of Gross Sales or Revenue		
	1944	1945	1946
Below to \$ 1,000	.92	.95	.92
\$ 1,000 to 2,000	2.08	2.19	1.63
2,000 to 3,000	2.69	2.84	2.70
3,000 to 4,000	3.45	3.50	3.26
4,000 to 5,000	3.95	3.62	3.42
5,000 to 10,000	3.97	4.22	4.27
10,000 to 15,000	5.03	4.74	5.26
15,000 to 20,000	5.42	5.56	5.53
20,000 to 25,000	5.69	5.12	6.01
25,000 to 50,000	6.89	6.16	6.68
50,000 to 100,000	8.33	6.87	7.64
100,000 to 250,000	9.98	9.60	8.97
250,000 to 500,000	10.68	10.66	11.43
500,000 to 1,000,000	10.37	9.30	10.18
1,000,000 to 5,000,000	11.62	10.18	10.72
Over 5,000,000	11.53	12.84	16.28
Average	9.35	8.81	9.49

Source: Taxation Statistics, Department of National Revenue, Ottawa.

the ratio of profits to sales or revenues will usually be high. This is true of public utilities. Large corporations which operate in several stages of industry will also tend to have a higher ratio of profits to sales because shipments between different stages of the industry will be considered shipments within the firm and will not appear as part of the firm's gross sales. In a smaller firm operating at only one stage, all these shipments would become a part of sales.

PROFITS IN RELATION TO INVESTMENT

Another basis for judging the level of corporate profits is the rate of return earned by the corporation on its investment. Judgment on this basis is complicated by the difficulty of determining the meaning of investment and the basis on which it should be valued. The total return earned by a corporation is a return to the capital assets held by the firm. Some of these assets are financed by means of short term credits such as bank loans, current accounts payable and accrued taxes payable, items which are usually termed current liabilities. The remainder of the firm's assets are financed by means of the long term bonded indebtedness and the firm's equity, the capital stocks, plus earned surplus and surplus reserves. Corporate profits are what remains for the equity or ownership interest in the firm after payments of the contractual amounts due to the current

liabilities and long term indebtedness. The remainder will depend both on the amount of the total earnings of capital and the amount which has to be paid to the creditor claims. The share received by the ownership interest may vary from corporation to corporation depending on the extent to which it was financed by means of creditor obligations. Because of the low interest rates prevailing today a firm which has a substantial amount of bonded indebtedness carrying low rates of interest may easily earn a much higher rate of return on the firm's equity than the rate of return which is earned on the firm's total capital assets.

The amount of earnings obtained will also depend to some extent on the composition of the corporation's assets. Since the end of the war corporations have been selling marketable securities, in most cases government securities that carried relatively low rates of interest, and have been investing the proceeds in active earning assets. This shift in the type of assets held may have played a small part in the increased earnings obtained by corporations during the past few years. This should not be given too much weight, however, because during the period of construction there may actually be no return on the investment.

The basis on which the firm's assets are valued, in particular its fixed plant and equipment, also affect the rate of return a corporation earns on its equity. In many instances the firm's plant will be carried at its original cost less depreciation charged since that time. But in other cases, particularly where a corporation has been refinanced, the assets may have been reappraised at their current value and the firm's equity may have been increased or decreased accordingly. Even where the assets are carried at original cost less depreciation the rate of return earned by the corporation may vary substantially. Assuming equal efficiency, prices which yield a moderate rate of return on new investments at today's costs are likely to yield a very high rate of return on investments which were made when prices were lower. The competition of new investments can be expected to force profits down to a level where a competitive rate of return is being earned on investments made at today's costs. This may still allow the lower cost plants to show a high rate of return on their original costs and accordingly corporations with such a low cost plant may continue to show a high rate of return on their equity. This means that in terms of today's price levels the book value of investments made at lower costs substantially overstates the current earning value of these assets. This conclusion must be modified where the new investments are more efficient. Recent developments in technique may allow gains in efficiency from new investments that will partially or completely offset the disadvantages of today's higher costs. In the longer run, the competitive rate of return that becomes effective will depend to a large extent on the future course of construction and machinery costs.

Statistical data showing the rate of return earned on the corporation's equity are available from two different sources. Data for all cor-

porations are available for the taxation years 1944, 1945 and 1946. These data are based on the reports made to the Department of National Revenue for tax purposes. The taxation year includes all corporations' fiscal years ending within a given calendar year. Thus in the taxation year 1946 would be grouped data for corporations whose fiscal year ended between January 1, and December 31, 1946. Except for those corporations whose fiscal year ended on December 31, the data cover part of the calendar year 1945 and part of 1946. These data are sufficiently up to date to provide an indication of the recent trend in profits but it does show the rates of return which were earned in this base period. These data are shown in the first table for corporations classified by size of income and in the table following according to the industry in which the corporation falls. Table 49 shows that in the two most recent years the highest rate of return was earned by corporations with annual incomes between \$250,000 and \$1,000,000. Table 50 shows that the highest rate of return in recent years has been earned by corporations in retail and wholesale trade. Both groups earned a rate of return before payment of taxes equal to over 24 per cent of their equity in 1946. Corporations engaged in manufacturing and in the service industry also received a high rate of return in 1946, in both instances more than 18 per cent.

TABLE 49

CORPORATE INCOME BEFORE TAX AS A PER CENT OF THE CORPORATION'S
EQUITY, CLASSIFIED BY SIZE OF INCOME, TAXATION YEARS

1944, 1945 and 1946

Size of Income before Tax		Percentage Rate of Return on Equity		
		1944	1945	1946
Below	\$ 1,000	.69	1.57	1.41
\$ 1,000 to	2,000	4.45	3.56	4.58
2,000 to	3,000	4.82	6.09	4.61
3,000 to	4,000	8.66	8.38	7.82
4,000 to	5,000	9.87	7.97	7.80
5,000 to	10,000	9.50	11.85	12.33
10,000 to	15,000	11.80	11.22	13.15
15,000 to	20,000	11.22	10.76	16.86
20,000 to	25,000	11.84	12.47	14.60
25,000 to	50,000	13.50	13.00	17.02
50,000 to	100,000	14.37	10.56	13.86
100,000 to	250,000	14.02	18.60	16.29
250,000 to	500,000	17.72	17.46	18.04
500,000 to	1,000,000	15.74	16.03	17.18
1,000,000 to	5,000,000	16.68	13.72	15.11
Over	5,000,000	13.47	13.31	14.14
Total All Profit Companies		13.95	13.57	14.89

Source: Taxation Statistics, Department of National Revenue, Ottawa.

TABLE 50
CORPORATE INCOME BEFORE TAX AS A PER CENT OF THE
CORPORATION'S EQUITY, BY TYPE OF INDUSTRY,
TAXATION YEARS
1944, 1945 and 1946

Industry	Percentage Rate of Return on Equity		
	1944	1945	1946
Agriculture, Forestry and Fishing	5.24	3.09	7.80
Mining	7.01	7.45	6.57
Manufacturing	19.08	17.28	18.14
Construction	15.39	11.00	14.08
Public Utilities	7.92	7.94	6.52
Wholesale	19.37	20.43	24.53
Retail	21.78	22.34	25.74
Service	16.93	17.38	18.69
Finance	3.02	2.82	3.08
Unclassified	7.56	7.24	12.68
Total All Companies	12.74	12.15	12.65

Source: Taxation Statistics, Department of National Revenue, Ottawa.

The second source of statistical data on corporate income is the sample of companies' annual statements compiled by the Research Department of the Bank of Canada and published in the Bank's Statistical Summary. This sample consists of a constant number of companies for which data are available over the period 1935 and 1947. It is restricted to companies whose assets in 1941 were in excess of \$200,000. For a number of reasons the information provided by this sample must be interpreted with considerable care. Because it consists of a constant number of companies it may not accurately reflect changes in profits which are due to the influx of new corporations during period of rising incomes or their disappearance when incomes are depressed. Further, companies are included in the sample on the basis of whether or not annual statements are available over the period covered by the sample. For this reason also the sample may not always be representative of movement in total corporate profits. When the data on total profits before tax for this group of companies are compared over the period from 1939 to 1946 with the total profits earned by all companies, it is found that the Bank of Canada's sample group of companies understates considerably the increase in total profits. Over this period the Bank of Canada sample of 665 companies shows an increase in profits before tax of 71 per cent whereas the increase in profits before tax of all corporations estimated on the basis of taxation data amounted to about 136 per cent. At least part of this difference is due to the heavy weight given to gold mining companies in the Bank of Canada's sample, for the profits of this group have fallen sharply over this period. For these reasons it is necessary to treat the results shown by this constant sample of companies with caution. However, one of its

advantages is that it provides some indication of the trend of profits for the more recent period. Profits are tabulated in this sample on the basis of fiscal years that correspond most nearly to the calendar year. This means that data now available for 1947 will include all corporate statements with fiscal years ending between July 1, 1947, and June 30, 1948. While the total for all 665 companies may not show accurately the movement of total corporate profits, the individual industrial breakdowns provide some indication of the changes in profits in different industries.

Table 51 and Table 52 show the ratio of net income after provision for taxes to the companies' equity, that is, capital stock plus surplus and surplus reserves. This is shown for all 665 companies and for 14 industrial groups. In 1947 the highest rate of return, more than 20 per cent, was earned by the non-ferrous group. This was followed by beverage manufacturing companies and pulp and paper companies.

ARE PROFITS TOO HIGH?

It will be evident from the foregoing that the available data do not enable very definite conclusions to be reached as to the size and significance of corporate profits as a whole in relation to the recent rise in Canadian prices.¹ These profits contain an element of what is essentially an inventory profit arising from the particular method commonly used in valuing inventories. They also tend to be somewhat overstated because the allowances made for depreciation are probably insufficient to replace, at today's costs, the capital which has worn out during the year. In addition corporate profits have been increased by extremely profitable sales on the export market.

For the year 1947, corporate profits, before deduction of tax, formed a higher proportion of the Gross National Product (less certain government expenditures) than in either war or immediate pre-war years.² After deducting tax, corporate profits formed a smaller proportion of this total of Gross National Product than in pre-war years. These calculations may be taken to mean that the margin of profit has tended to be somewhat larger in recent years, although allowance must be made for the various special factors such as inventory profits, inadequate depreciation reserves and export profits mentioned above. Comprehensive data available on profits in relation to sales is not recent enough to be of much value but our studies of particular industries seem to bear out this general conclusion.

The rate of return on investment, that is, after deduction of taxes, varies greatly from industry to industry. Industries like pulp and paper which have participated so largely in the export trade show a phenomenal increase in their rate of return. Gold mining, on the other hand, has suffered an equally sharp drop. From the point of view of domestic price levels it is significant that wholesale and retail trading companies have earned a considerably higher return on their investment than at any time

¹Cf. The industry studies appearing in Volume III for comments on particular industries.

²Cf. Chapter 6, Fiscal and Monetary Policy.

TABLE 51
PROFIT STATISTICS FOR 665 SELECTED CANADIAN COMPANIES
FOR THE YEARS 1937 - 1947^a
(millions of dollars)

	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947
Preferred Stock Outstanding	494	488	483	472	467	467	458	456	443	422	470
Common Stock Outstanding	1,421	1,418	1,422	1,449	1,433	1,438	1,446	1,455	1,474	1,541	1,596
Earned Surplus and Surplus Reserves ^b	777	777	821	869	970	1,072	1,158	1,243	1,334	1,445	1,621
Equity	2,692	2,683	2,726	2,790	2,870	2,977	3,062	3,154	3,251	3,408	3,687
Net Income to Stockholders ^c	284	235	281	275	297	298	279	267	270	329	442
Per Cent Net Income to Equity	10.55	8.76	10.31	9.86	10.35	10.01	9.11	8.47	8.31	9.65	11.99

a) The tabulation includes all those companies with 1941 assets over \$200,000 for which consistent reports were available from 1935 to 1947. The accounts of certain companies which were available in some or all of these years were not comparable throughout the period and had to be excluded. Since many of the companies report on a consolidated basis, the number of individual companies included in the sample is actually a good deal larger than indicated. The material is, of course, subject to all the limitations and qualifications which apply to the basic accounting statements. Fiscal year nearest to calendar years used.

b) Includes contingent and general reserves, capital surplus and the refundable portion of the Excess Profits Tax.

c) For purposes of comparability, any special capital charges made against income account in company reports have been added back as well as "contingent" and "general" reserves. Special inventory reserves, whether shown by the company in operating expenses or as an adjustment to earned surplus, have been deducted in arriving at Net Operating Profit. For the total 665 companies the special inventory reserves amount to .4, .2, 1.7, 1.1, 5.9, 2.7, 4.2, - 1.8, 2.8 and 14.9 in the years 1937 to 1947 respectively.

Source: Bank of Canada, Ottawa.

TABLE 52
PER CENT NET INCOME TO EQUITY, 665 SELECTED CANADIAN COMPANIES
AND FOR 14 INDUSTRIAL GROUPS

1937 - 1947^a

	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947
23 Pulp and Paper Companies	2.96	6.32	3.31	6.05	6.30	4.85	4.43	5.15	5.57	10.83	15.75
27 Electrical Machinery Companies	8.34	6.67	6.54	6.98	7.68	8.56	7.78	8.24	6.50	6.05	10.58
38 Gold Mining Companies	24.44	25.63	25.12	23.19	20.73	16.26	12.43	9.02	7.82	5.93	5.05
18 Non-Ferrous Metal Companies	23.53	15.62	13.57	17.69	18.65	17.61	16.02	13.16	12.64	14.73	20.44
49 Iron and Steel Companies	8.58	6.24	9.52	8.73	9.34	9.76	9.40	7.98	6.86	7.89	10.61
51 Machinery Companies	7.28	6.12	4.76	6.94	8.94	10.04	8.55	7.58	6.84	6.50	11.46
30 Chemical Companies	12.58	11.61	15.34	13.38	13.49	11.92	10.20	11.17	10.91	12.40	13.90
11 Petroleum Companies	15.33	14.90	13.93	11.53	10.60	9.84	10.73	10.44	10.88	11.73	12.41
64 Wholesale Trade Companies	8.50	6.15	9.16	9.23	8.97	9.10	9.09	7.99	8.87	12.19	13.12
32 Retail, Trade and Service Companies	7.26	7.07	8.42	7.73	8.89	9.27	9.28	10.33	10.59	13.86	13.86
23 Electric Utility Companies	4.11	4.02	4.00	4.12	4.37	4.88	4.87	4.56	4.63	5.12	5.15
46 Food Companies	6.76	6.72	10.93	7.89	8.35	8.80	8.41	8.41	7.48	8.23	9.91
15 Beverage Companies	13.63	10.89	11.81	9.41	12.40	13.77	12.31	14.04	15.46	21.09	16.94
27 Primary Textile Companies	5.78	4.07	9.63	8.26	9.03	9.58	7.48	9.07	7.97	7.92	10.24
Total 665 Companies	10.55	8.76	10.31	9.86	10.35	10.01	9.11	8.47	8.31	9.65	11.99

a) The tabulation includes all those companies with 1941 assets over \$200,000 for which consistent reports were available from 1935 to 1947. The accounts of certain companies which were available in some or all of these years were not comparable throughout the period and had to be excluded. Since many of the companies report on a consolidated basis, the number of individual companies included in the sample is actually a good deal larger than indicated. The material is, of course, subject to all the limitations and qualifications which apply to the basic accounting statements. Fiscal year nearest to calendar years used.

Source: Bank of Canada, Ottawa.

in the past 10 years, attributable to greater volume as well as to greater unit profits. The latest figures for the primary textile companies and the statements produced before the Special Committee on Prices by some of the companies themselves, indicate a rate of return substantially higher than pre-war and a little higher than most war years.¹ One general reason for the higher rate of return in 1947 is, of course, reduced taxes on corporate profits.

TABLE 53

INCOME AND EXCESS PROFITS TAXES^a PAID AS A PER CENT OF
CORPORATE PROFITS LESS LOSSES

Year	Per Cent
1944	53
1945	53
1946	50
1947	47

a) The effective rate of tax in 1948 will be substantially lower than in 1947 because of the removal of the 15 per cent excess profits tax.

Source: Dominion Bureau of Statistics, Ottawa.

Although it cannot be assumed that we live under conditions of pure competition, neither can it be assumed that all corporations are in a position to determine the market price at any level they see fit. In some respects, therefore, to say that higher profits are a cause of higher prices for manufactured goods is like saying that higher incomes for farmers are a cause of higher prices for farm produce. The farmer sells at the going market price; if he sold for anything less, the dealer rather than the consumer would be the probable beneficiary. In certain cases this is also the situation with respect to manufactured goods.

Mr. H. R. MacMillan's testimony on this point is relevant:

"Our company (H. R. MacMillan Company) felt it was not in the company's interest that the price of lumber to Canada should be advanced. We tried an experiment, and for a period of from something like two or three months, from September 15, onward, we refrained from allowing our prices to go to the level at which we were aware sales were being made by the industry at large, thinking possibly that if we sold at lower than the current prices the rise might only be temporary, and that we might have some influence on the market level, an influence in the interests of the consumers in Canada, or in those portions of Canada in which we were selling; but as has already been explained to you, I think our sales with the exception of relatively small quantities around the mill areas, that is, in Alberni, Chemainus and Vancouver, and solely to retailers and such buyers as the railroads and large industrial

¹Evidence, Special Committee on Prices, p. 3837.

corporations, we found that selling to the retailers at lesser prices than other mills in our producing area was having the effect of increasing the retailer's profit, without doing anybody any good, because he would buy from us for several dollars a thousand less than he was paying and ready to pay to others, and he was mixing our lumber with the lumber he bought elsewhere and selling it to consumers at the same price.

Therefore after what you might call losing a sum of what we estimated to be from \$75,000 to \$100,000 in the pursuit of this ideal we ceased it and allowed our lumber to rise to the price level or almost to the price level—we were a little careful about that—and we allowed it to follow the price level established in the open market by hundreds of sellers and hundreds of buyers.”¹

Looking at corporate profits in general we find it difficult to say that exceptionally high profits have been a major cause of the rise in prices since the end of the war. Our examination of particular industries will be found in Volume III of this Report.

So that there may be no misunderstanding we should add that in making such a statement we are not in any way expressing an opinion on the question of whether the returns to the owners of corporate businesses were or were not excessive in relation to the rest of the community. Our sole concern here is to attempt to trace the causes of the recent rise in the cost of living.

PROFITS AS INCOME FOR SPENDING

As was suggested earlier, profits may also affect prices through their influence on spending. They are income, like wages or rents, which can either be saved or spent. Assuming that the profits have been earned, does it matter whether they are paid out as dividends or retained as undistributed profits in the hands of the corporations?

The Canadian Congress of Labour, through Mr. Eugene Forsey, argued as follows:

“Undistributed profits, the Congress submits, are likely to have a disproportionately large inflationary effect, through their effect on the capital boom. They contribute directly to that boom; and by making their owners less dependent on the banking system, they make it harder for the banks to exert a restraining influence.”²

The argument here, it will be noted, is not that profits have been too high, but that the retention of profits is more inflationary than their distribution as dividends. The validity of this argument which cannot be tested by the facts would seem to run as follows. If the retained profits had been distributed, a part of them would have been paid over in the form of taxes by shareholders. These shareholders, taken as a

¹Evidence, Royal Commission on Prices, p. 1523.

²Evidence, Royal Commission on Prices, p. 2119.

group, are likely at the present time to have a higher than average propensity to save and, therefore, would spend only a portion of the additional dividends they receive. Moreover, a high proportion of the dividends of Canadian corporations is paid to non-Canadians. On the other hand, a corporation, in making its plans for expansion or improvement, is no doubt influenced not only by profit expectations but also by its liquid position. It is more likely to go ahead, or at least to go ahead more quickly, if it has all or most of the necessary funds on hand than if it has to go into the capital market to obtain them. As is pointed out in the chapter of this report dealing with the investment boom, corporate undistributed profits plus depreciation allowances in 1947 were sufficient to finance over one-half of the total private investment in plant, equipment and inventories in that year.¹

Whatever merit there may be in this argument we do not think too much weight should be given to it. Some corporations have not spent all their undistributed profits and, therefore, provided savings which would not necessarily have been made by individual shareholders. Furthermore, to the extent that profits are overstated because of inventory profits or inadequate allowance for depreciation, the apparent extent of undistributed profits may be misleading.

Finally, corporate profits affect prices in an indirect manner through the part they play in the wage-price spiral. High corporate profits, even though these are earned through export sales or contain an important element of inventory profits, provide an incentive or support for labour to increase their demands for higher wages. In this way the higher profits have probably played an active part in the wage-price spiral. Even though the profits are partly fictitious, as in the case with inventory profits, this is not always taken into account and these stated profits may become the basis of demands for increased wages.

¹Cf. Chapter 5, The Investment Boom.

AGRICULTURAL PRICES

WHEN the war broke out, farm prices were low in relation to other prices, but since 1939, they have risen somewhat more than the general level of prices. The index number of wholesale prices of Canadian farm products increased about 122 per cent between the average for the year 1939, and October, 1948, while the general wholesale price index advanced 112 per cent for the same period. The largest increase in farm prices, 75 per cent, occurred between 1939 and 1945. Since then the index of farm prices has risen only 27 per cent. This is much less than the increase in most other price groups during this period. Most of the recent rise has been due to the higher prices for livestock and dairy products. The wholesale index of animal product prices has risen over 50 per cent in the last three years. On the other hand, the index of field crop prices is currently only about 10 per cent higher than it was in 1945. The more moderate rise of this group is partly due to a decline in vegetable prices, potatoes in particular. It also reflects the fact that the current market price for wheat is only partially included in the above index. If wheat were to be included at \$2.05 per bushel, the current domestic and British contract price, the wholesale index of Canadian farm products for October, 1948, would be 6.6 per cent higher and the increase in farm prices shown by it since 1939, would be 137 per cent instead of 122 per cent as stated above.

The movement of farm product prices are a key factor in any inflationary period. The importance of food in our cost of living gives these prices a vital relation to the wage price spiral. Higher prices for farm products yielding higher incomes to the farmer may in turn lead to demands for higher wages on the part of the industrial worker. During the war higher prices to the farmer were paid to a substantial extent in the form of subsidies. This kept agricultural prices from being reflected on a higher cost of living at the time. But when many of these subsidies were discontinued at the end of the war the full impact of these higher returns to the farmer was passed on to the consumer.

The wide fluctuations to which farm product prices are subject make these relationships particularly important. The explanation of this lies partly in the nature of the agricultural industry and the way it adjusts to changed market conditions. The main features of Canadian agriculture and the part these have played in recent price changes are set forth below. During the past few years, the relation of the prices of farm products to the recent rise in prices has been affected by government price controls and subsidies, and by government marketing policies with respect to agriculture.

THE PATTERN OF CANADIAN AGRICULTURE

While the absolute level of agricultural production is increasing, its relative share of total production has been declining. The primary cause of this is the more rapid pace of industrial and mining development.

These trends became marked in the period between the two world wars. Since 1919, manufacturing and mining have assumed more dominant roles in the Canadian economy, especially in Ontario and Quebec. In 1919, agriculture was Canada's most important industry, contributing 44 per cent of the total net value of commodity production as compared with 33 per cent for manufacturing. By 1939, this position was almost reversed with manufacturing contributing over 40 per cent of the total as against 23 per cent for agriculture. This same trend is evident in statistics of national income. The following table shows that net farm income amounted to 17 per cent of our national income in 1926. By 1947, it had fallen to 11 per cent.

TABLE 54

RATIO OF NET INCOME OF AGRICULTURE TO NET NATIONAL INCOME
AT FACTOR COST, SELECTED YEARS, 1926-1947

(millions of dollars)

Year	Net Income of Farm Operators from Current Production	Net National Income at Factor Cost	Ratio, Farm Income to Net National Income (per cent)
1926	691	4,078	17
1929	443	4,689	9
1933	98	2,387	4
1937	326	4,017	8
1939	461	4,289	11
1942	1,089	8,382	12
1945	971	9,772	10
1946	1,130	9,765	12
1947 ^a	1,235	10,981	11

a) Preliminary.

Source: Dominion Bureau of Statistics, Ottawa.

In the twentieth century, agriculture has not absorbed all of the labour supply which grows up in rural areas. Because of the rapid mechanization of agriculture, particularly for field crops and the increased output per worker which has resulted from the use of more machinery, new farming methods and better varieties of grain and quality of livestock, and the relatively more rapid growth of industry, there has resulted a steady migration from rural to urban regions. This movement may be slowed up or reversed during periods of depression, but in time of high industrial employment like the present, it is resumed, sometimes becoming so rapid as to lead to complaints of a scarcity of farm labour. The movement from rural to urban areas has been accentuated by the increasing capital cost of farming operations. As agriculture becomes more mechanized, it requires more capital to start as an independent farm operator. Higher farm incomes

make it somewhat easier to get started, though if the higher incomes become capitalized in higher land values, the difficulty may be enhanced.

Accompanying the decline in agriculture's relative position there has been a shift in the type of farm output. Livestock and its products have become increasingly important whereas grains have shown a relative decline. In 1926, farmers obtained one-half of their cash income from the sale of grains while sales of livestock, dairy products, poultry and eggs provided only 26 per cent of the total. By 1947, these proportions had been reversed. The marketing of grains contributed only 32 per cent of cash farm income in 1947, whereas receipts from the sale of livestock, dairy products, poultry and eggs made up 50 per cent of the total. Part of this is due to changes in relative prices. Prices of animal products have tended to increase relative to the prices of field products, chiefly because of the more rapid gains in productivity in the output of field crops. But it also reflects a shift in the type of output in response to a changing consumer demand. As incomes have risen, consumers have increased their consumption of the more expensive meats and dairy products at the expense of bread and cereals. The demand for fruits and vegetables has also risen and this is evidenced by the increased importance of fruits and vegetables as a source of farm income.

Farm prices are affected by two influences, domestic demand and export demand. With the increased importance of the industrial part of our economy, agriculture has become somewhat more dependent on industrial prosperity. Alternate periods of depression and prosperity as well as natural hazards, result in a high degree of instability in farm incomes. Net income of farm operators from current farm production fell from \$693 million in 1928, to a low of only \$98 million in 1933. By 1947, it was \$1,235 million. These extreme fluctuations in farm incomes resulted partly from the sharp fall and rise in farm prices and partly from the variation in farm production arising from weather conditions. Crop failures and bumper crops often give a sharp year-to-year variation to the output of field crops. The resulting variation in feed supply may cause some fluctuation in the output of livestock and livestock products. But aside from this, farm production changes very slowly. Unlike industrial production the total amount of agricultural production varies little between periods of prosperity and depression, if the effects of climate are eliminated. In periods of depression industry releases many of its workers and restricts its production. At the same time, it often keeps its prices unchanged or allows them to fall only slightly. In contrast, the farmer continues to produce in the face of sharply falling prices for his product. His labour, including that of members of his family, will always yield some return. But continued farm production at a time when incomes and demands are dropping sharply in the city areas results in a severe drop in farm product prices. Since non-farm prices are much more stable the farmer finds himself forced to exchange his produce on much less favourable terms. This relationship is reversed during periods of recovery and prosperity. At such times farm

prices usually rise rapidly as demand increases in urban areas. But once again, farm output may respond slowly to these increased demands and higher prices.

The instability of farm product prices not only makes farm incomes extremely variable, it also takes time for the farmer to adjust his output to changing market conditions. While in over-all terms and excepting for variations in output caused by the climate, farm production is quite stable, this is not true of any one product. Farmers may shift quickly from one type of field crop to another. Relative prices are an important guide to farmers. They help them determine which products are most urgently needed by the economy.

Canadian agriculture has long been dependent on the export market for the sale of a substantial part of its products. In 1947, the value of Canada's exports of farm products in raw or semi-finished form amounted to about 40 per cent of farmers' cash income. This represents a decline since 1929, when similar exports were 47 per cent of farmers' cash income. Of the total exports of farm products in 1947, almost 60 per cent consisted of wheat and wheat flour. In addition to wheat, dependence on the export market has been particularly marked for bacon, cheese, apples, tobacco and more recently eggs. Substantial export markets have also existed for cattle, concentrated milk, barley and beans. The export market is particularly important to the Prairie provinces, which depend so largely on the export of wheat as a source of income.

TABLE 55

EXPORTS AS A PERCENTAGE OF TOTAL SUPPLY SELECTED AGRICULTURAL PRODUCTS, CANADA, 1945-1948

(per cent)

Commodity	1945-1946	1946-1947	1947-1948
Wheat ^a (exports include wheat flour)	58.6	49.5	46.5
Oats ^a (exports include oatmeal and rolled oats)	9.1	6.6	3.5
Barley ^a	2.4	3.9	22.2
Potatoes	4.9	13.1	8.9
Hay (clover, alfalfa and grain hay)	1.1	.9	
	1945	1946	1947
Butter (total)	1.4	1.2	.8
Cheese (farm and factory cheddar and whole milk cheese)	58.7	57.6	37.0
Beef (exports include fresh, canned and processed products on a fresh basis, live animals exclusive)	16.9	12.4	4.9
Pork (as above for beef)	10.5	14.3	6.1

a) Exports include export clearances and imports into United States.

Source: Data from Dominion Bureau of Statistics, Ottawa.

Canada's major export market for agricultural products traditionally has been the United Kingdom. Following in importance have been the United States and various European countries. Table 56 indicates the relative importance of these markets.

TABLE 56
EXPORTS OF AGRICULTURAL PRODUCTS^a, CANADA,
SELECTED YEARS, 1929-1947

(millions of dollars)

Year	United Kingdom	United States	Other Countries	Total
1929	235	125	211	571
1939	168	124	60	352
1945	464	483	271	1,218
1946	398	213	326	937
1947	471	160	384	1,015
1948	410	357	311	1,078

a) No adjustment for non-Canadian agricultural products.

Source: Dominion Bureau of Statistics, Ottawa.

The dependence on the export market adds a further element of vulnerability to farm incomes and prices. This has been emphasized during the past year. Traditional markets have been lost, or their purchases greatly reduced because of the shortage of dollars. The United Kingdom and other European countries have restricted their purchases of our farm products on this account. In some cases, continued purchases have been made possible through Marshall plan funds. But this arrangement is precarious since purchases in Canada may be interrupted whenever a product is declared surplus in the United States. Already flax and oats have been declared surplus and cannot be purchased in Canada with Marshall plan funds. For most products, sales on the domestic market or in the United States have been sufficient to offset the loss of European markets, but the future prospects for exports are a major uncertainty in the farm picture.

WARTIME DEVELOPMENT

In 1939, the wholesale index of Canadian farm product prices on a basis 1926=100 was only 64.3 in comparison with 75.4 for the general level of prices and 78.5 for the prices of commodities and services used by farmers. The depression of the 'thirties had slowed up the movement from rural to urban regions and as a result there was a substantial number of under-employed workers on Canada's farms. The burden of farm debt was still high and the farmers' stock of machinery had not been properly maintained during the 'thirties.

Following the declaration of war, there was an upward movement in farm prices in anticipation of greater demand. But when Germany overran the continent in the summer of 1940, and markets for Canadian wheat and feed grains in the invaded countries were lost, prices of farm products declined again. The wholesale price index of field products which was 97.5 in April, 1940, fell to 78.0 by August of the same year. Livestock price indexes remained relatively steady. From then on, under the influence of rising domestic demands and special contracts with the United Kingdom, wholesale prices of farm products moved upwards. By December, 1941, when the over-all price ceiling was imposed, wholesale prices of farm

products had risen almost 23 per cent, over their level in September, 1939. Field product prices rose 18.0 per cent and animal product prices about 26.7 per cent.

Because it was recognized that the relative level of farm prices was still low, the wartime price stabilization program did not result in a freezing of prices received by farmers.¹ Price ceilings were applied to manufactured or processed farm products, but prices for most farm products were free to fluctuate within the limits allowed by this ceiling. Wheat was treated as a special case.² In this way the farmer was given the benefit of any trading advantage which might arise without increasing prices to the ultimate consumer. Administratively, it would have proven extremely difficult to establish ceilings on farm products. This policy also allowed supplies to flow freely from farmer to processor. Ceiling prices were applied in the case of farmers selling products directly to consumers through market stalls or by other methods. Farmers were considered to be retailers in such instances and could not sell products directly to consumers at prices any higher than the ceiling established for that district. Further upward adjustments were made at various stages throughout the war period.

With the disappearance of continental sources of supply for livestock and livestock products in 1940, and with the intensification of submarine warfare it became necessary for Canada to concentrate on farm products that were high in protein value relative to volume. Livestock and dairy products were given a high priority. At the same time, with the loss of several export markets for grains and as a result of two large crops the carry-over reached the point where storage space was filled to capacity. This situation made necessary sharp changes in the pattern of Canadian agriculture. Increased production of cattle and hogs was encouraged by the payment of a quality premium on hogs and an upward adjustment of the ceiling price on beef. Freight assistance on the shipment of feed grains to British Columbia and eastern Canada and the Wheat Acreage Reduction Act had similar effects. Under this latter act farmers, between 1941 and 1943, were given an incentive to increase their output of coarse grains and forage crops and reduce their output of wheat. Other programs fostered an increase in the output of flax, soybeans, fruits and vegetables, and dried beans and peas. For dairy products payment of subsidies on milk for fluid milk, for cheese, for concentrated products and for butter encouraged larger output and helped offset higher feed costs. Measures were also taken to keep farm costs from rising. Special subsidies on gasoline and the removal of custom duties from farm machinery allowed only a moderate increase in the prices of these commodities. Subsidy payments also kept feed cost at fairly constant levels after April, 1942, and kept fertilizer prices unchanged.

The result of this program was a large increase in the output of urgently needed livestock and livestock products. An unusually favourable crop of coarse grains in 1942, provided the feed required for a sharp expansion in

¹ See Chapter 3, Vol. II, Price Control and Rationing.

² See Chapter 2, Vol. III, Bread.

output. The increased output was needed to meet both the requirements of the United Kingdom and a greatly expanded domestic demand. The increase in production and exports of a number of major farm products are set forth in the following table.

TABLE 57

PRODUCTION AND EXPORTS OF SOME IMPORTANT FARM PRODUCTS,
CANADA, WAR AND PRE-WAR YEARS

(millions)

		Average 1935-1939	1942	1943	1944	1945
Wheat ^a						
Production	bushel	312	557	284	417	319
Export ^b	bushel	181	215	344	343	343
Oats ^a						
Production	bushel	338	652	482	500	382
Exports	bushel	14	63	75	86	44
Barley ^a						
Production	bushel	89	259	216	195	158
Exports	bushel	14	34	36	39	4
Apples						
Production	bushel	15	13	13	18	8
Exports ^c	bushel	7	3	3	4	3
Pork						
Production	pounds	625	1,189	1,396	1,505	1,113
Exports ^d	pounds	184	538	589	719	463
Beef						
Production	pounds	704	823	893	961	1,156
Exports ^d	pounds	88	78	15	109	198
Eggs						
Production	dozen	220	281	316	361	374
Exports ^e	dozen	1	29	41	57	115
Cheese						
Production	pounds	120	207	166	182	186
Exports	pounds	80	142	130	131	135
Butter (Creamery)						
Production	pounds	255	285	312	299	294
Exports	pounds	7	2	9	5	6
Concentrated Milk						
Production	pounds	136	261	260	278	300
Exports	pounds	30	67	46	47	104
Fluid Milk						
Sales	pounds	2,880	3,388	3,706	3,912	4,008

a) Crop years beginning August 1.

b) Includes wheat as flour.

c) Includes fresh fruit equivalent of canned and dried apples.

d) Includes estimated dressed weight of animals exported alive.

e) Includes exports of dried eggs converted to fresh egg equivalent.

Source: Dominion Bureau of Statistics, Ottawa.

At annual conferences representatives of the Dominion, the provinces, and the farmers themselves, met and agreed on objectives for agricultural production during the coming year. To some extent the announcements of

these conferences were a mixture of objectives and forecasts, and prices were not always known at the time the objectives were determined. Farmers were encouraged to meet these objectives by means of educational campaigns, by price increases and by subsidy payments rather than by any direct regulations.

For a number of products the Dominion government negotiated long term contracts with the United Kingdom under which the United Kingdom contracted to take definite minimum amounts at agreed upon prices. Contracts for bacon, cheese, evaporated milk, eggs, flax fibres and a few other products were first negotiated early in the war. Successive agreements covering these products were maintained throughout the entire period and in many instances continue. In 1939, agreements were also reached covering the shipment of beef, mutton and lamb and in the post-war period contracts covering the shipment of wheat, fruits, vegetables and a number of other products were arranged. The prices under these agreements frequently became the effective domestic prices and were set with a view to encouraging the necessary expansion in production in Canada. Since costs, with the exception, perhaps of labour, were relatively stable, the farmer was able to plan his production more easily than he normally could under free market conditions with sharply fluctuating prices. This undoubtedly facilitated the achievement of Canada's wartime agricultural objectives.

Prices received by farmers moved upward throughout the war period. The index of prices received by farmers advanced 20 per cent between 1941 and 1942, increased a further 19 per cent by 1943 and nine per cent more by 1944. By the middle of 1943, this advance had restored a relationship to other prices similar to that enjoyed by farmers during the latter part of the 'twenties, a condition of prices which the Canadian Federation of Agriculture, in their evidence before us, considered favourable.¹ At the same time, the extensive use of subsidies kept most of these increases from being reflected in higher food prices to the consumer. Retail food prices increased only about 10 per cent between December, 1941, and August, 1945.

Aided by higher prices and increased output the financial position of Canadian farmers improved substantially during the war. Cash farm income increased from \$722 million in 1939 to \$1,695 million in 1945. Net farm income for the same period increased from \$484 million to \$981 million. This higher income led to a substantial reduction in farm debt. It is estimated that in the years between 1939 and 1944 farmers reduced their total indebtedness by approximately \$326 million or by about 32 per cent. Each of the provinces showed a substantial reduction with the greatest decrease occurring in the prairies. Both the wartime gains in income and the reduction of indebtedness have continued in the post-war period. Though supplies were limited during the war, farmers were able to make additions to their machinery and equipment. Between 1939 and 1945 farmers bought well over \$300 million worth of farm equipment and substantial additions have occurred during the post-war years. A further effect of the improved

¹Evidence, Royal Commission on Prices, p. 2186.

financial position of farmers has been a rise in land values. In 1947, the average value of farm land was estimated at \$35 per acre, an increase of approximately 40 per cent over 1939.

POST-WAR DEVELOPMENT

When the war ended the demand for agricultural products was strong. The removal of the dangers to shipping, the re-opening of the continent and the loans extended to the United Kingdom and to other European countries by the Canadian government provided markets for Canadian farm products. Agricultural production in Europe and other parts of the world had been severely reduced because of the lack of machinery and fertilizers and the liquidation of livestock herds. At the same time the population had continued to increase and the food shortage in many areas was acute. Canadian exports of farm products were limited only by the supplies available and our willingness to restrict our own consumption.

Domestic demands were also high because of the increase in Canada's population of about eight per cent between 1939 and 1945 and because of high levels of income. Per capita incomes in the hands of the consumer had increased from \$338 in the 1935-1939 period to \$686 in 1945. While consumers in 1945 were spending about the same proportion of their income on food as they had in 1939, with the higher income levels prevailing this meant a substantial increase in the volume of food consumption. Data on per capita food consumption show that by 1945, the average Canadian was eating a good deal more meat, fresh fruits and vegetables and was using more fluid milk and cream. On the other hand, he was eating less cereals and about the same amount of potatoes. Consumption of both butter and sugar had been reduced below pre-war levels by rationing.

TABLE 58

SUMMARY OF PER CAPITA SUPPLIES MOVING INTO CIVILIAN CONSUMPTION
IN CANADA, PRE-WAR AVERAGE, ANNUAL TOTALS, 1945-1947,
ESTIMATE FOR 1948

(pounds per capita per annum)

Commodity	Pre-war	1945	1946	1947	Estimate 1948
Cereals, total (excluding starch)	206.0	200.2	219.2	165.9	183.1
Potatoes, white	192.3	186.3	198.5	161.6	175.4
Fruit, total (excluding non-citrus juices)	138.7	163.4	174.6	172.0	146.8
Vegetables, total	78.4	78.5	88.8	75.8	68.2
Milk, total milk and cheese	390.8 ^a	523.0	519.0	510.5	500.7
fluid milk (sold and consumed)	347.3 ^a	479.1	478.2	457.8	447.4
Meat, total ^b	136.8	167.6	167.3	166.1	164.5

a) Figures represent total of number of pounds of fluid milk and number of pounds of fluid cream (25 per cent butterfat). Data for subsequent years are weight of total fluid milk.

b) Estimated dressed weight.

Source: Combined Food Board, Washington, D.C. and the Dominion Bureau of Statistics, Ottawa.

Though the demand for farm products seemed assured for a year or two at least, there was little certainty beyond that time. The severe winter

in Europe in 1946-1947 followed by a dry summer gave a sharp set back to the recovery of European agricultural production and prolonged the period of food shortages and high prices. Only now in late 1948 are there signs that world food stocks are beginning to approach more normal levels, even yet a crop failure in some major producing area such as the United States could further delay the end of serious food shortages.

Food contracts with the United Kingdom, similar to those first developed during the war, were negotiated in 1945 for the purchase of a major portion of Canada's export supply of bacon, beef, wheat and other products. It was hoped that the effect of these contracts would be to retain the stability of agricultural prices which had prevailed during the war.

On the supply side, when the war ended, Canadian agriculture had achieved a better balance than ever before. A big livestock and dairy industry had been built up which provided some hedge against the extreme dependence on wheat which proved so disastrous for agriculture in the 'thirties. The following table shows the increases among important agricultural commodities since 1941.

TABLE 59
INDEXES OF TOTAL SUPPLY OF SELECTED AGRICULTURAL COMMODITIES,
1945-1948
(1941 = 100)

Commodity	1945-1946	1946-1947	1947-1948
Wheat ^a	72.7	61.3	53.7
Oats ^b	136.6	127.7	99.1
Barley	153.7	147.2	140.4
Potatoes	103.4	122.6	114.9
Hay ^c	134.4	111.9	d
Sugar Beets	86.9	103.1	d
	1945	1946	1947
Butter ^e	97.0	90.5	98.8
Cheese ^f	129.2	103.6	84.2
Beef ^g	151.6	144.0	130.7
Pork ^g	103.4	91.5	90.6

a) Wheat flour included.

b) Oatmeal and rolled oats included.

c) Hay and clover, alfalfa and grain hay.

d) Data not yet available.

e) Creamery, dairy and whey butter.

f) Cheddar, farm and factory produced, whole milk cheese and other than cheddar.

g) Exports of live animals not taken into account in these calculations.

Source: Data from Dominion Bureau of Statistics, Ottawa.

A movement out of livestock production was already underway in 1945. The decline in the following years was particularly sharp in the prairies where much of the wartime expansion had taken place. Farmers, finding wheat production more profitable, shifted back rapidly to their former pattern of output. By the middle of 1948, the number of hogs on farms had fallen almost to the level in 1939, and was only a little more than half of the number on farms in June, 1943. Farm stocks of sheep and lambs had fallen below 1939 levels, though stocks of cattle were still about

13 per cent higher. Less favourable ratios between feed and livestock prices and smaller coarse grain crops undoubtedly played an important part in this decline, but the higher income that could be earned in producing wheat was also a factor.

Prices of farm products are determined in a competitive market and there is little that the individual farmer can do either to increase the price of the product he sells during a depression or to hold its price down in a period such as the present. Because of this, in the face of a strong export and domestic demand for food, the prices of farm products moved rapidly upward during the post-war period. The major factors affecting this movement were the rapid advance of prices in export markets, Dominion and provincial marketing legislation and the government program of price de-control and subsidy removal. The effects of export prices were considerably modified by means of the export controls maintained and the food contracts negotiated with the United Kingdom. These are discussed in some detail below. The removal of subsidies and price controls affecting the prices of farm products was substantially completed during 1947, although some controls have been reimposed since that time.¹ The impact of this on Canadian price levels has also been assessed.

In considering both these factors it is necessary to keep in mind the conflict that exists between allowing higher farm prices and farm incomes and maintaining low food prices to the consumer. The conflict is not absolute. Some increases in farm income without a rise in domestic prices can be attained through controls which prevent domestic prices from rising to the higher levels on the export market.

The Food Contracts with the United Kingdom

The United Kingdom food contracts have been particularly important for livestock and dairy products. The minimum amount called for under the contracts and the actual shipments and prices for a number of important products are set forth in the following table.

As we have pointed out in our discussion on meats,² the domestic price for beef and pork has been largely determined during recent years by the price obtained in Canada's contracts with the United Kingdom. This is also substantially true for other farm products such as eggs and cheese. During the war years when Canadian production of most livestock and dairy products reached high levels, Canada succeeded in supplying the minimum amounts called for under the contracts, in some instances exceeding them. But with the decline in production at the end of the war, Canada frequently fell far short of supplying the amounts specified. In this situation, the contract prices have acted both as a ceiling and a floor on domestic prices. Any increase in domestic demand or reduction in domestic supply merely reduced the quantities shipped under the contracts. Because of this, prices could not rise above the contract prices. Nor could they fall below them as

¹ See Chapter 3, Vol. II, Price Control and Rationing.

² Cf. Chapter 4, Vol. III, Meat.

TABLE 60
CANADA — UNITED KINGDOM FOOD AGREEMENTS, BACON, BEEF, CHEESE, EGGS AND EVAPORATED MILK

	Nov. '39 Oct. '40	Nov. '40 Oct. '41	Oct. '41 Nov. '42	Nov. '42 Dec. '43	Jan. '44 Dec. '44	Jan. '45 Dec. '45	Jan. '46 Dec. '46	Jan. '47 Dec. '47	Jan. '48 Dec. '48
BACON									
Contract Shipments	291 331	426 426	600 600	675 675	900 ^a 660	450 22.50	450 25.00 ^b	350 27.00 ^c	225 176 36.00
Price	18.01	15.82	19.77	21.75					
BEEF									
Contract Shipments					100 349		60 120	120 41	50 17
Price					22.75		22.75	24.25	27.50
EGGS									
Contract Shipments									
Price									
CHEESE									
Contract Shipments									
Price									
EVAPORATED MILK									
Contract Shipments									
Price									

a) Two year contract.
b) Raised from 22.50 April 1, 1946, and in effect until Jan. 11, 1947.
c) Raised to 25.00 Sept. 1, 1947.
d) In September, 1948, the beef contract was cancelled and the egg contract was revised downwards from 83,000,000 dozen.
e) Flat price.
f) 41.0 cents from Feb. 1-May 4, 1947, and 42.5 cents from May 5, 1947.
g) 47.8 cents from Feb. 1-May 4, 1947, and 50.8 cents from May 5, 1947.
h) Dried and frozen.
i) Eastern ports.
Source: Dominion Department of Agriculture, Economics Division, Ottawa.

long as supplies were not sufficient to fill the contracts. Canadian producers could always sell to the United Kingdom any supplies which were not absorbed by the Canadian market. Although the rise in contract prices was responsible for the increase in domestic prices of many farm products, there is reason to believe that domestic prices might have gone much higher if sales on the export market had been completely free. Prices for most farm products in the United States market remained appreciably above Canadian prices from the termination of price controls in the United States in July, 1946, until very recently. The comparative levels of prices in Canada and the United States for a number of major products are indicated in the following table.

TABLE 61
PRICES OF IMPORTANT FARM PRODUCTS, CANADA AND THE UNITED STATES,
SELECTED DATES

(dollars)

	August, 1939	August, 1945	January, 1947	January, 1948	August, 1948	December, 1948
CANADA						
Wheat, No. 1 Northern, Lakehead						
Commercial export bushel		1.55	2.276	3.258	2.423	2.413
United Kingdom contract bushel		1.55	1.550	1.585	2.035	2.05
Domestic to Millers bushel	.549	1.25	1.250	1.585	2.05	2.05
Initial Payment to Producers bushel	.70	1.25	1.35	1.35	1.55	1.55
Barley No. 1 Feed Lakehead bushel	.323	.648	.648	1.285	1.075	1.075
Oats No. 2 C. W. " bushel	.273	.515	.515	.966	.779	.795
Rye No. 2. C. W. " bushel	.376	1.538	2.583	4.150	1.595	1.541
Flax No. 1 C. W. " bushel	1.299	2.750	2.750	5.000	4.836	4.000
Steers, Yard, Toronto cwt.	6.27	11.70	13.36	15.21	22.42	21.30
Hogs, B 1, Dressed, Toronto cwt.	7.85	18.70	21.71	28.10	33.28	30.70
Eggs A-Large, Montreal dozen	.318	.499	.423	.479	.661	.503
Cheese No. 1, " pound	.130	.206	.275	.413	.383	.373
Butter, No. 1, " pound	.228	.367	.420	.695	.705	.705
Fluid Milk, Toronto cwt.	2.098	2.80	3.45	4.00	4.05	4.05
UNITED STATES ^a						
Wheat No. 1, Dark Northern Spring, Minneapolis bushel	.72	1.877	2.168	2.999	2.198	2.346
Barley No. 2 Malting, Minneapolis bushel	.368	1.412	1.839	2.754	1.518	1.601
Oats No. 3 White, Minneapolis bushel	.310	.634	.781	1.331	.672	.790
Rye No. 2, Minneapolis bushel	.455	1.634	2.841	2.774	1.568	1.722
Flax (not available)						
Steers, good to choice, Chicago cwt.	9.307	18.923	26.531	34.188	34.450	34.30 ^b
Hogs, heavy butcher good, Detroit cwt.	5.777	16.299	22.894	26.500	28.525	23.185
Eggs, 1 and 2 large boxed, Boston dozen	.175	.503	.470	.512	.573	.658
Cheese, whole milk, f.o.b. Chicago pound	.135	.278	.410	.453	.466	.359
Butter, creamery 92 score, Chicago pound	.236	.453	.657	.836	.748	.630
Fluid milk, f.o.b. country, Chicago cwt.	1.638	3.626	4.567	4.962	5.261	4.377

a) Converted to Canadian dollars.

b) Average of good and choice.

Source: Dominion Bureau of Statistics, Ottawa.

Throughout most of the post-war period Canadian prices were prevented by means of export restrictions from rising to the levels prevailing in the United States. The embargo on exports of beef and cattle was removed in August, 1948, and this was immediately followed by a substantial advance in cattle and beef prices in Canada. Even before the removal of the embargo, prices had moved upward in anticipation of such a step. Within the last few months the disparity between Canadian and American prices for farm products has begun to disappear and prices across the line are now lower than in Canada for pork and a few other farm products.

The wheat contract with the United Kingdom covering the period 1945 to 1949, provided that the United Kingdom should purchase a minimum of 160 million bushels in each of the first two years at a price of \$1.55 per bushel, and a minimum of 140 million bushels in each of the two final years. In the last two years of the agreement, prices were to be reached by negotiation but floor prices of \$1.25 and \$1.00 per bushel were guaranteed. The price actually reached in the final two years was \$2.00 per bushel. In addition provision was made for some readjustment if the contract price in the first two years was substantially below the market price. As we pointed out above, at the time this contract was reached, it was expected that the post-war food shortage and period of high farm product prices would be comparatively short. As a result, Canada has been selling wheat under this contract at prices substantially below world levels throughout most of its duration.

Sales of wheat in the domestic market have also been at a price substantially below the commercial export price. The price up to February 17, 1947, was \$1.25, thereafter it was \$1.55 until August 1, 1948, when it was raised to \$2.00 per bushel. The most recent increase was absorbed on the domestic market by a subsidy of 45 cents per bushel, instituted to prevent a rise in bread prices. The lower prices for wheat provided under the United Kingdom contract did not directly affect prices on the domestic market. Indirectly it is possible there may have been some effects. A higher price for wheat throughout this period might easily have caused a greater transfer from the production of oats and barley to production of wheat. With less oats and barley for livestock feed there would have been more upward pressure on the prices of these products and in turn on all livestock and dairy products.

Wheat Marketing Arrangements

Since 1943, wheat marketed in western Canada has been handled by the Canadian Wheat Board. Before that, farmers had the option of delivering their wheat to the Board or selling it on the open market. Farmers are paid an initial payment when the wheat is delivered and in addition receive a participation certificate which entitles them to participate in proportion to their deliveries in any further earnings of the Board. Any losses incurred by the Board are absorbed by the Dominion government and become in effect a subsidy to wheat farmers. Until 1945, in the deter-

mination of these earnings or losses, deliveries and sales for each crop year were kept separate. Beginning in 1945, and for the period of the wheat contract with the United Kingdom from 1945 to 1949, deliveries and sales for this four year period have been pooled and earnings or losses will be calculated on the period as a whole. In the early years of the war many of the crop accounts incurred substantial losses and the Dominion government paid subsidies to western wheat farmers amounting to about \$12 millions. However, since 1941-1942, the selling price has substantially exceeded the initial delivery price.

Under arrangement covering the period 1945 to 1949 the Canadian Wheat Board has twice raised the initial delivery price, first from \$1.25 per bushel to \$1.35 per bushel and then to \$1.55 per bushel. This increase was made retroactive for all deliveries up to that time and as a consequence substantial additional payments were made to the farmer. Throughout the period of the current contract the Canadian Wheat Board has been accumulating substantial earnings which ultimately will be paid to the farmer. It would appear that \$160 millions of undistributed earnings were accumulated during the three years 1945 to 1947 and a further accumulation has occurred during 1948.

Provincial Marketing Legislation

Most of the nine provinces in Canada have marketing legislation authorizing the establishment of marketing boards with power to regulate the movement and the minimum prices of the majority of farm products. The provinces of Ontario, British Columbia and Nova Scotia are most active in this respect and dairy products, fruits and vegetables have been the chief products affected.

Fluid milk control agencies have been set up in all provinces of Canada and, while the type of control differs in the various provinces, the method of operation and the powers of the agencies are very similar. All provincial agencies have the power, under their control legislation, to inquire into all matters pertaining to the fluid milk industry. Milk control operates in those areas defined by the provincial boards and while all boards have the authority to bring any area in a province under control, in most provinces the controlled areas are confined to the larger urban centres in the provinces. Prices for milk in these areas may be established at both the consumer and producer levels.

The marketing arrangements for most other products vary as to coverage of commodities, scope and responsibility. Because Ontario is the most active province in the field of provincial marketing boards, we will briefly outline its program. The Farm Products Marketing Act of that province provides authority for the Minister of Agriculture to approve the operation of the marketing projects and a Board is appointed to supervise them.

Marketing plans are the legally constituted means for collective bargaining and regulating the sale of designated farm products. Each scheme must provide a definite program of marketing activities and must be sup-

ported by a vote by ballot showing that a fairly representative number of growers concerned are in favour of the arrangement.

Each scheme is administered by a local board of growers. Subject to approval, each local board is empowered to negotiate and conclude agreements respecting minimum price, premiums, discounts, forms of contracts and conditions of sale for the product or products subject to regulation under the scheme. The minimum prices and terms of contract established each year are floors, below which no processor may go in purchasing his supplies.

Decontrol and Subsidy Removal

For farm products most price ceilings and subsidies were removed during 1947. The first important foods to be decontrolled were fresh fruits and vegetables which, with the exception of apples, were released from control on January 13, 1947. Ceiling prices were lifted on shell eggs on April 2, 1947, to help stimulate production to meet export commitments. At the same time price controls were removed from turkeys, geese and ducks, followed in June by dairy products, fresh apples, chickens, some of the less important canned fruits and vegetables and most jams and jellies. On July 1, tea, coffee and bakery products were decontrolled. Then on September 15, ceiling prices were lifted on flour, bread, prepared cereal products, rice, corn and corn products, beans, peas, canned pork and beans, the remaining jams and jellies and most of the remaining canned fruits and vegetables. Decontrol of meats and feed grains followed on October 22. By that time, the only products of agricultural origin still under control were sugar, molasses, the principal oil-producing crops such as flax seed, sunflower seed and rapeseed and the more important oils and fats.

In most instances, the removal of ceiling prices was preceded or accompanied by the termination of the subsidy payments affecting various foods. The major subsidies removed during 1947, were those on wheat used for milling, on butterfat for creamery butter, and on milk used for cheddar cheese.

Subsidies in the form of freight assistance on feed grain shipped to eastern Canada and British Columbia, hog premiums and assistance in the transportation of lime were continued into 1948.

Events in late 1947 and early 1948 led to the restoration of some price controls and subsidies. In other instances further decontrol occurred. Sharp fluctuations in the prices of fruits and vegetables following the imposition of import restrictions applied in November, 1947, as part of the foreign exchange conservation measures, led to the reimposition of ceiling prices on the more important canned fruits and vegetables, and mark-up control on canned citrus fruit juices, citrus fruits, grapes, cabbages, carrots and imported new potatoes. Butter also was brought back under price control in January, 1948, as were wheat, flour and bread much later in the year. As was pointed out above, a subsidy of 45 cents a bushel on wheat sold to the millers for domestic use was instituted in August, 1948, to offset an increase of that amount in the domestic price. On the other hand, lard,

shortening, soap, and oils and fats used in their production were decontrolled at the end of July.

The process of decontrol may be said to have facilitated rather than to have caused the increase in prices during this period. With the removal of subsidies, an upward price adjustment was inevitable. It could have been avoided only by a reduction in the return to the farmer. There was instead some increase in prices received by the farmers which, coupled with the removal of subsidies, led to a sharp advance in food prices. Retail food prices advanced over 22 per cent during 1947, and increased a further 14 per cent in 1948. For many products the prices established during this period were the result of the adjustment of demand and supply in a free market. However, as was indicated above, for a number of important products the prices established in export contracts with the United Kingdom and the limitation imposed on exports to the United States were important determining factors. Even yet for such important products as butter, flour and bread, prices in Canada have been kept below the levels that would have prevailed in a completely free market.

Both in the United States and Canada there is a large body of opinion in favour of moderating the cyclical swings in agricultural prices. It may not be entirely wise to allow the prices of farm products to be determined completely by the play of a free market. As we have noted above farm prices tend to fluctuate more than the prices of any other products over the business cycle. Many farmers and farm groups believe that the farmer's position would be improved by the introduction of more stability into farm prices.¹ Under the Agricultural Prices Support Act, prices of farm products may be supported through the Agricultural Prices Support Board. The Act, which applies to all farm products except wheat, sets forth the following broad principle for the guidance of the Board in making its recommendations regarding price levels.

"In prescribing prices . . . the Board shall endeavour to ensure adequate and stable returns for agriculture by promoting orderly adjustment from war to peace conditions and shall endeavour to secure a fair relationship between the returns from agriculture and those from other occupations."

Under the Act the Board may buy agricultural products at defined prices and sell them again. If the Board sustains operating losses in supporting the prices of farm products these losses can be made up by annual votes of Parliament. If the Board makes operating profits these will be paid over annually to the Receiver General, to be added to government revenue. Thus far the only farm products whose prices have been supported under the Act are potatoes and apples.

¹This attitude was expressed in the address of the President to the annual meeting of the Canadian Federation of Agriculture in Brockville in 1948. "Canadian farmers have never been advocates of high 'prices' and are not so today. Their policy has been one of farm prices in a proper balance with those of other major groups in the nation and preferably on a moderate level. This has been the policy of the Canadian Federation of Agriculture. Moreover, last May at the farmers' conference in The Hague, it was adopted unanimously as to the policy of the farmers of the world organized internationally. They declared themselves in favour of prices in world trade which are fair to producers and consumers alike. And their first consideration was to find and support the best possible method of stabilizing prices of staple food products entering extensively into world trade within a range which would prevent them from dropping so low as to ruin producers in exporting nations or of rising out of reach of consumers in importing nations."

In judging the effects which the post-war course of farm product prices has had on the relative income position of the farmer it is common practice to make a comparison between the prices of the goods and services the farmer buys and the prices of the products he sells. In a brief presented before us by the Canadian Federation of Agriculture, it was suggested that the period 1925 to 1929 was one in which our economy was pretty well in balance and that this period should be taken as a base of reference for comparing these two sets of prices. It is then suggested that if prices of farm products have increased more, or decreased less, since 1925-1929 than the prices of the goods and services that farmers buy, the farmers' position has improved. If the reverse is true the farmers' position has deteriorated in relation to his position in 1925-1929. The ratio between these two sets of prices is often called a parity price level.

Although we recognize that there should be an equitable relationship between the income of the farmer and the return to other groups in equivalent positions in the economy, it is our opinion that caution must be observed in dealing with the principle of a parity price level. The circumstances under which a parity price is established can easily change. Any price should reflect the cost or efficiency with which a commodity is produced. If there are marked improvements in the efficiency with which a commodity is produced and if the benefits of these improvements are passed on to the consumer through competition there will be a fall in the price of the commodity. An improvement of this type seems to have taken place in the production of rayon yarn and wholesale price of this product is now only 63.6 per cent of its level in 1926, even though the general index of wholesale prices has increased by almost 60 per cent over this period. But this has not meant any deterioration in the position of producers of rayon yarn. The same is true of farm products. Where improvements in farming methods or new varieties of grain make it possible to produce certain farm products more cheaply than formerly this benefit can be passed on to the consumer in the form of a lower price without any deterioration in the farmers' income. In general, improvements in the efficiency of production over the past 20 years seem to have been greater for field products than they have for animal products. The disparity between these two indexes has become progressively greater since 1926. Yet no one would suggest that because of this, livestock and dairy farmers have been much better off than farmers who raised field crops.

Whether improvements in techniques will cause an index of all farm products to fall more or less over a period of years than an index of the prices of goods and services purchased by farmers is difficult to predict. But there is no reason to suppose that the two indexes will be equally affected. For this reason it is difficult to see how this comparison over a long term of time can offer any valid measure of the changing fortunes of the farmers.

Over short periods of time changes in productivity are unlikely to be important and the relative movement of these two indexes provides some measure of the change that has occurred in the farmers' relative position.

Since 1939, the farmers' price position has improved substantially. By late 1948, prices received by farmers had increased 174 per cent since 1939, whereas the cost of goods and services farmers buy had risen only 90 per cent. Some of this improvement is undoubtedly due to the depressed level of farm prices in 1939. Since 1945, prices of farm products have increased slightly more than the prices of commodities and services purchased by farmers. The first index went up about 39 per cent, the second a little less than 35 per cent.

The amount of income received provides another basis for judging the relative position of the farmer. During 1947 Canadian farmers received an average of \$1,870 from their current farm production. This was just slightly less than the average salary and wage income of \$1,910 received by paid workers in both agricultural and non-agricultural employment. As a result of the sharp rise in farm prices during the current year farm incomes in 1948 will be substantially higher than this. While data indicate that the average farmer is receiving very modest returns this does not mean that many farmers are not making very high returns. In the 1941 census of agriculture, 28 per cent of our full time farms, classed as subsistence or combination of subsistence farms, produced only eight per cent of the total commercial product sold off all farms. If this group of farms could be excluded, the average for the remaining farms would be much higher.

SUMMARY AND CONCLUSIONS

What part then can we say that agriculture has played in causing the recent rise in prices? Prices of farm products have risen less since 1945 than the prices of most other groups in the wholesale index. Yet because the cost of food is of such vital concern to almost every Canadian the recent rise in farm prices has received a good deal of attention. In part, this arose from the sudden removal of subsidies which kept food prices down during the war. Because of this the advance in retail food prices has been greater than the rise in farm product prices since the end of the war.

In general we have found that farm prices moved upward in response to the acute world shortage of food, a shortage that was an inevitable aftermath of the war. Canadian farmers themselves could do little either to avoid or moderate this rise. But to some extent the rise was moderated by the food contracts negotiated with the United Kingdom by the Canadian government. Both these agreements and the restrictions that were placed on the export of farm products to the United States kept Canadian prices from rising to the levels prevailing in export markets.

This has undoubtedly helped to keep the whole Canadian price structure at a lower level. If Canadian food prices had risen to higher levels it seems likely that industrial workers would have sought and obtained higher wages to compensate for the greater rise in the cost of living.

To the farmer the higher prices for his product have meant higher incomes both gross and net. When the war broke out farm product prices were unusually low and the farmer's position was relatively unfavourable. Since that time, farm incomes have improved considerably.

MARK-UPS AND MARGINS

THE primary purpose of this chapter is to analyze the effect of mark-ups and margins in the distributive trades on prices paid by consumers in a period of rising prices. Throughout our inquiry we paid particular attention to the problem of margins and mark-ups and many references to this important topic appear throughout the evidence.¹

It ought, perhaps, to be mentioned at the outset that the statistical information available to us on the subject was not very complete. Therefore, apart from our own evidence and that of the Special Committee the statistics appearing in this chapter are not as current as we would have wished.

It is in the price he has to pay that the average consumer comes in contact with the system of distribution; the spread between the cost of production and the retail price of consumer goods is thus a matter of some significance to him. It is important to note, however, that the price spreads represent more than simply the distributors' profits and that a small spread does not necessarily indicate efficiency in distribution. "In many lines of trade, 30 or 40 per cent of the price received by the retailer is paid out for wages, salaries, rent and other operating expenses; and most of the remainder represents the cost of goods sold, so that the retailer retains as profit only a few cents out of what the consumer pays."² However, our chief concern is with the effect on the retail price paid by consumers of changes in the "dollar and cent" spread following changes in the prices paid by retailers for merchandise they sell; and, in particular, in a period of rising prices. In brief, we are not so much interested in the reasons for the spread as we are in changes in the spread and the reasons or justifications for these changes.

As a preliminary to the analysis of this problem, we must first give precise definitions of a few terms that are used in the manufacturing and distributive trades and these are set out in the following paragraphs.

The majority of terms used in this survey are common to every day business activity and only a few warrant formal definition.

Some Definitions

In the distributive trade the term "mark-up" means the amount which is added to the cost price to determine the selling price. The mark-up is usually expressed as a percentage of the cost or of the selling price.

Frequently a wholesaler or retailer is unable to sell his merchandise at the original selling price, and in order to move the merchandise, he is forced to reduce the price. The amount of the reduction that he makes is called a "mark-down" and is commonly expressed as a percentage of the selling price.

¹See general discussion in Report of the Distribution Costs Commission, Union of South Africa (The Government Printer: Pretoria, 1947), p. 3.

²"Does Distribution Cost Too Much?" The Twentieth Century Fund (New York, 1939), p. 23.

The rate of stock-turn is the number of times the average inventory is sold during a given period, usually one year. The stock-turn rate may be computed under conditions of fairly uniform prices, by dividing the average inventory at selling price into the net sales. The resulting figure perhaps might be distorted in periods of changing prices.

Obviously the mark-up placed on goods is influenced by the distributor's opinion of the stock turnover he can expect when various prices are asked. There is a definite relationship then between the mark-up and the rate of stock turnover.

For purposes of our treatment of margins and mark-ups, net sales will be accepted and used throughout as the base, or 100 per cent, in order to relate all factors to this one common base, net sales.

SOME CONSIDERATIONS ON MARK-UPS

In actual practice, the retailer or wholesaler does not add the same mark-up to all his goods. There are several reasons why varying mark-ups are used. In the first place, the competition on some items may be too strong to allow the retailer to get his desired average mark-up. Again, some goods, such as style goods, are so subject to mark-downs that they are unprofitable unless the initial mark-up is very high. Moreover, it costs more to sell some goods than it does others; they may require more display, more of the sales person's time, and more advertising. A mark-up higher than the average is needed to offset this higher cost. Hence, the actual price established for any article of merchandise may vary considerably from that indicated by the application of an average mark-up percentage.

The retailer, or wholesaler, endeavours to set up some average mark-up as the goal for his total operations but he tries to adjust his mark-ups on various items of merchandise so as to maximize his total net income. The result is that mark-ups on specific items may be in a process of constant adjustment in an effort to reach this goal.

One of the most common fallacies connected with distribution is to compare the mark-ups, or margins, taken on different goods and to assume that in those cases where the mark-up is relatively low the distribution is more efficient; or, to put the matter another way, to assume that in those cases where the mark-up is relatively high that it is "too high". For example, the margin on fresh fruits is considerably higher than the margin on sugar. However, the special circumstances attached to the distribution of fresh fruits, for example perishability, are absent in the case of sugar and necessitate the taking of a higher margin on fruits.

THE MARKETING STRUCTURE IN CANADA

The cost of distribution accounts for the "spread" between the price the producer receives and the price the consumer ultimately pays. For this reason, we will give a brief description of the marketing institutions in the various channels of distribution in Canada and examine the functions they perform.

First, let us ask: What is distribution? Distribution includes all the intermediate steps such as transportation, storage, merchandising, financing and advertising involved in getting the goods from the manufacturer's factory door to the ultimate consumer. For our purposes we will adopt this definition of distribution but we shall concentrate our attention more on the specific spreads between manufacturer and wholesaler and between wholesaler and retailer.

Distribution, like production, has been undergoing marked changes in recent years with the result that the distributive methods of today are considerably different than they were, say, at the outbreak of World War I. It is not our concern here to discuss these changes but we might note in passing that the principal changes have centred around the growth of large-scale merchandising outlets such as department stores, chain stores, supermarkets and the growth of direct selling to retailers by manufacturers. Both of these developments have tended to bring about a decline in the relative importance of the wholesaler and to reduce the volume of business of the so-called independent retailer.

WHOLESALE IN CANADA

The limits of the wholesale field are not easily defined because manufacturers perform many of the functions usually attributed to wholesalers and there is considerable interchanging of the marketing functions among the various other organizations in the marketing structure.

It is, however, more convenient to consider the services performed by the wholesaler as twofold: (i) services to the retailer and (ii) services to the manufacturer. The services performed by the wholesaler were explained in part by Mr. J. V. R. Porteous, the president of Greenshields-Hodgson-Racine Limited:

"It, (wholesaling) reduces the effort the retailer has to spend on buying and leaves him free to look after the other ends of his business.

"In order to give you an example of what that actually means, I should like to go back to my own business for a moment. We analysed for our own satisfaction certain shipments that were going out of our warehouse. I have one shipment that amounted to \$610. In that shipment we had the products of fifty-three manufacturers. That averaged \$11 per manufacturer. I think that more or less explains itself. If you care to break that down and figure how much time you would have to spend to interview the representatives of fifty-three manufacturers, buy an average of \$11 a piece and then have fifty-three shipments coming in, then have fifty-three drafts through the bank and so on and so forth, you realize that it would be an impossible burden on some of the smaller retailers. They simply would not be able to cope with it. That is one shipment."¹

¹Evidence, Royal Commission on Prices, p. 902.

For the retailer the wholesaler acts as "buying agent", anticipates retailers' demands, maintains effective contacts with sources of supply, performs the storage function and aids materially in financing by giving direct aid to the retailer or by offering quick delivery so that the retailer may keep a smaller inventory on hand. In turn, the wholesaler acts as the "selling agent" for the manufacturer and performs many of the essential functions in the marketing process.

Although there is a great variation among the classifications of wholesalers as to the functions performed, it is the performance of these essential services which justifies the spread, or margin, to give the wholesaler a profit after meeting the expenses incurred.

Operating Expenses of Wholesale Establishments

As noted, the operating expenses of wholesale establishments are largely dependent upon the extent of services performed. Table 62 indicates the operating expenses of wholesale establishments as reported to the Census of Merchandising and Service Establishments at the time of the 1941 Census.

TABLE 62
OPERATING EXPENSES OF SELECTED WHOLESALE ESTABLISHMENTS
BY TYPE OF OPERATION, CANADA, 1941

TYPE OF OPERATION	OPERATING EXPENSES (per cent of sales)		
	Total	Salaries and Wages	Other Expenses
Wholesale Merchants	11.28	5.65	5.63
Voluntary Group Wholesalers	10.24	4.73	5.51
Export Merchants	3.48	1.31	2.17
Import Merchants	11.72	5.58	6.14
Drop Shippers and Desk Jobbers	3.01	1.11	1.90
Wagon Distributors	12.32	4.23	8.09
Manufacturers' Sales Branches (with stocks)	8.99	4.02	4.97

Source: Census of Canada, 1941: Volume XI, p. 184.

The data in Table 62 indicate that the operating expense ratios vary from 3.01 per cent to 12.32 per cent according to the variation in the marketing functions performed by the wholesalers.

Table 63 shows the operating expenses of wholesale merchants for some selected trades.

The percentage of operating expenses to sales for the selected trades shown in this table varied from a low of 7.45 to a high of 40.31 per cent. Wholesalers handling staple goods such as tobacco, groceries, and food products tended to have the lowest operating expense ratios. On the other hand, high operating expenses were reported for wholesalers dealing in optical goods, paint, glass and wallpaper, and leather goods.

TABLE 63
OPERATING EXPENSES OF WHOLESALE MERCHANTS FOR
SELECTED KINDS OF BUSINESS, CANADA, 1941

KIND OF BUSINESS	OPERATING EXPENSES (per cent of sales)
Drugs and Drug Sundries (general line)	11.16
Clothing and/or Furnishings (general line)	13.56
Dry Goods (general line)	14.18
Fruits and Vegetables	9.71
China, Glassware, Pottery	26.47
Groceries (general line)	7.69
Hardware (general line)	14.52
Leather Goods	22.84
Paint, Glass and Wallpaper	26.61
Tobacco and Confectionery	7.45
Optical Goods	40.31

Source: Census of Canada, 1941: Volume XI, p. 180.

Operating Expenses and Mark-ups

The relation between operating expenses and mark-ups is obvious. In actual practice the wholesaler does not mark up each article he sells at a uniform mark-up but he will endeavour to obtain an average mark-up that will yield him the desired profit. In determining the mark-up operating expenses will be an important factor.

RETAIL TRADE IN CANADA

Of the \$3,668 million of retail trade transacted in Canada in 1941 Census year, \$3,441 million was transacted through retail stores. These retail outlets are broken down into 10 broad classifications and their relative importance is shown in Table 64.

TABLE 64
DISTRIBUTION OF TOTAL RETAIL STORE SALES
BY KIND-OF-BUSINESS GROUP, 1941

GROUP	SALES (thousands of dollars)	Per Cent of Total
Food Group	786,247	22.9
Country General Stores	214,748	6.2
General Merchandise Group	525,971	15.3
Automotive Group	594,720	17.3
Apparel Group	295,212	8.6
Building Materials Group (including Hardware)	174,203	5.1
Furniture, Household, Radio Group	118,357	3.4
Restaurant Group	131,181	3.8
Other Retail Stores	589,193	17.1
Second-hand Group	11,070	0.3
TOTAL	3,440,902	100.0

Source: Census of Canada, 1941: Volume X, p. xix.

In common with many other countries, large scale merchandising in Canada has followed two main lines of development, the large individual establishments, particularly the department store type, and the "horizontal integration" development involving the growth of multiple organizations of which the chain stores are the outstanding example. In spite of the important part played by these developments, the independent stores still conduct the bulk of the trade, approximately 70 per cent in 1941, yet there is a marked concentration of retail sales in Canada in the larger stores. For example, according to the Census of Merchandising 43,292 stores with annual sales of less than \$5,000 constituted 31.6 per cent of all retail outlets yet only accounted for 2.9 per cent of the total retail sales. On the other hand, there were 413 stores each with annual sales of \$500,000 or more and while constituting only 0.3 per cent of the total of retail outlets these transacted 19 per cent of the total retail trade.

Operating Expenses of Independent Stores

The Census of Merchandising obtained at the time of the Census the operating expenses of independent stores. These operating expenses include the following items: (i) the value of proprietor services; (ii) salaries and wages paid to employees; (iii) rentals of property used for business purposes; and (iv) a total figure for all other operating expenses. The cost of merchandise purchased, however, was not obtained by the Census; hence, the data do not permit a computation of the gross margin obtained or the net profit or loss. Nevertheless, the operating ratios are useful as a guide in showing the variations in these items for the different types of independent retail stores.

TABLE 65
OPERATING EXPENSES OF INDEPENDENT STORES
FOR SELECTED KINDS OF BUSINESS, 1941

KIND OF BUSINESS	OPERATING EXPENSES (per cent of sales)
Millinery Stores	45.2
Restaurants and Cafeterias	43.7
Jewellery Stores	35.9
Paint, Glass and Wallpaper Stores	34.9
Children's Wear Stores	29.4
Household Appliance Stores	29.0
Women's Ready-to-Wear Stores	27.9
Department Stores	27.9
Furniture Stores	27.2
Variety Stores	26.6
Family Shoe Stores	26.5
Drug Stores (without soda fountain)	26.3
Men's Furnishings Stores	25.8
Hardware Stores	23.7
Lumber and Building Materials Stores	22.7
Fruit and Vegetable Stores	21.3
Grocery Stores (without fresh meats)	17.9
Combination Stores (groceries and meats)	16.7
Country General Stores	15.0

Source: Census of Canada, 1941: Volume X, p. 433.

From Table 65 we see that grocery stores, combination stores and country general stores have relatively low operating expenses. The low expense ratios in these stores are explained by the following factors: rapid turnover of stock, the stability of demand for staple food products, the small selling effort required, and moderate rentals. On the other hand, the highest expense ratios were reported in millinery stores and restaurants in which alterations, processing or manufacturing play an important part. The operating expenses of other stores shown in Table 65 fall in varying degrees between these extremes.

There is, moreover, a variation in the operating expenses in relation to sales as the size of the business increases. Generally speaking, the expenses as a percentage of sales decrease up to a point as the size of the business increases.

Store expense ratios generally continue to decline with increases in sales until a level of maximum efficiency has been reached. It is simply a case of "spreading the overhead" over a larger sales volume. There are certain expense items which are quite inflexible, for example rent, depreciation, insurance, taxes, heat, etc., and as the volume of sales increases the operating ratios decline. However, after the level of maximum efficiency has been reached the expense ratio may rise with further expansion of sales.

EFFECT OF DIFFERENT MARK-UP PRACTICES ON PRICES TO CONSUMERS IN A PERIOD OF RISING PRICES

In this section we shall trace the effect on prices paid by consumers of two major mark-up policies, or practices: (i) a constant percentage mark-up, and (ii) a constant dollar and cent mark-up. The effect on prices of these two practices can best be illustrated by means of a hypothetical example.

Let us assume that the laid-down cost to a retailer of an item of merchandise is \$10 and that he takes a mark-up of 50 per cent of selling price. The article will then be marked to sell at \$20. Let us assume further that his expenses amount to eight dollars or 40 per cent of selling price. He will then realize a net profit of two dollars or 10 per cent of selling price. This operation we will refer to as the "base period" operation.

Now let us assume that the laid-down cost to the retailer of this item of merchandise increases from \$10 to \$12 and that he maintains the same percentage mark-up, that is, 50 per cent of selling price. In this case, the article will be marked to sell at \$24. Assuming that the retailer's expenses remain the same, eight dollars, his net profit will now be four dollars, or 16.6 per cent of selling price.

If, however, he had maintained the same dollar and cent mark-up as in the base period the article would have been marked to sell at \$22. In this case the mark-up percentage would be 45.4 per cent and, assuming as before the same expenses, the retailer would have made the same profit as in the base period, that is two dollars or 9.1 per cent of sales.

Thus it can be seen that when the retailer uses a constant percentage mark-up when the cost of his goods increases, the price paid by the con-

sumer is higher than when he uses a constant dollar and cent mark-up. Of course, if a constant percentage mark-up is used by the manufacturer and/or wholesaler in the prices at which they sell to retailers an initial price increase at the manufacturing level is magnified considerably by the time the consumer is reached.

It appears to be a fairly general practice among wholesalers and retailers to take a nearly constant percentage mark-up rather than a fixed dollar and cent mark-up. This fact was substantiated many times in the evidence; for example, Mr. Norman MacGregor, of the MacGregor Shirt Company Limited, when asked if the definite percentage mark-up was prevalent replied, "I could say that we assume that it is the practice. It has been a fairly well established custom".¹

There are several reasons given for using the constant percentage mark-up, particularly in a period of rising prices.

(i) Most retailers maintain that, when the prices of the merchandise they handle are rising, their costs are also rising and that it is, therefore, necessary for them to take a larger dollar and cent mark-up such as is given by using a fixed percentage mark-up. That is to say, in the hypothetical example given above, if the retailer's cost had risen from eight dollars to 10 dollars he would have received the same net profit as in the base period. On the other hand, if he had used the constant dollar and cent mark-up his profit would have been wiped out. There is, however, a general tendency for retailers' expenses to lag behind rising prices.

We note that there is no definite relationship between increased dollar sales, on the one hand, and lower expense rates and higher profits on the other. It depends to a certain extent on the manner in which the increased sales have been achieved and this varies from store to store; that is, some stores experience a relatively moderate increase in the number of transactions but quite a marked increase in the size of the average sales while others have a substantial rise in the number of transactions and only a moderate increase in the size of the average sales. In the latter group the expense ratios will not decline as much as in the former group.

However, as the volume of sales increases, any subsequent decline in the expense ratio depends on the previous level of the store's productivity of personnel and of space.

"If these have been low in the period preceding the sales increase, the advance in sales volume will have a more marked effect in scoring expense reduction and profit increases; but if the store has been operating at high costs of personnel and space productivity just prior to the sales increase, necessary additions of personnel and additions or rearrangement of space may counteract in some part the beneficial effect of the step-up in sales."²

For these and other reasons there is no clear-cut pattern between rates of sales increase, on the one hand, and decline in expenses and improve-

¹Evidence, Royal Commission on Prices, p. 1044.

²Operating Results of Department and Specialty Stores in 1944, Harvard University Bureau of Business Research, Cambridge, 1945), p. 21.

ments of profits, on the other. The circumstances surrounding each individual case have to be investigated to discover this relationship.

It should be clearly understood that the above discussion applies to the change in expense ratios, that is, expenses expressed as a percentage of net sales and not to the dollar amounts of expenses. There have been sharp increases in the dollar amounts of certain operating expenses, particularly in payroll costs.

(ii) It was argued by Mr. G. S. Hougham, General Manager of the Canadian Retail Federation, that even though the actual dollar profit may increase as a result of a constant percentage mark-up in a period of rising prices, "the retailer can look to the accumulation of a fund which will, to some extent protect him against such contingencies, price declines." Mr. Hougham went on to explain that the "purchasing power" of the profits will be less and consequently in real terms they may be lower than previously.¹

With respect to the former it is maintained that if there is a decline in the wholesale prices of merchandise, a retailer feels that his competitors who bought later will be able to place orders at lower prices; consequently they may set lower prices on their goods and this will force those who bought earlier to take mark-downs.

(iii) It has even been maintained that in periods of rising prices the retailer should take a higher-than-usual mark-up, or else his working capital will decrease.

"Whenever a retailer discovers that he cannot replace his present stock except at higher prices, he should not hesitate to advance his prices. Otherwise, he will find that he does not achieve the inventory gain which is needed to offset the inventory loss which will come when prices fall."²

SOME COMMENTS ON PRICING POLICIES AND PRACTICES

The pricing policies and practices of manufacturers and distributors form a rather complex pattern showing considerable variation from industry to industry and from firm to firm within the same industry. These variations are produced by different firms placing different emphasis on such factors as: long-run point of view and effect of price on sales, charging what the traffic will bear, price leadership, meeting competition, underselling competition, price lines, customary prices, odd prices, and so forth. For our purposes it is not necessary to examine in detail the many pricing policies and practices in actual use by manufacturers and distributors. Our main purpose is to appraise certain pricing practices and policies as they effect mark-ups and margins and the prices paid by consumers.

Some authorities maintain that, in spite of the apparent diversity in practice, many manufacturers and distributors follow a rather conventional pattern. For example, Mr. S. H. Imrie, of Tooke Bros. Limited, testified that "It has been an established practice as far as I can recall in the business

¹Evidence, Royal Commission on Prices, p. 2092.

²Duncan and Phillips, *Retailing* (Chicago, 1948), p. 353.

that a retailer requires around 35 per cent to 36 per cent or 37 per cent to operate on."¹ Within the limitations imposed by the factors mentioned above, it appears to be a common practice of manufacturers to apply uniform percentage mark-ups to cover all expenses and profits except direct factory costs. It should be noted that an indiscriminate application of this practice on the part of both manufacturers and distributors results in an apparent variation in costs of distribution for articles of merchandise produced at different costs.

Tooke Bros. Limited, turns out a medium-priced shirt to sell at retail for \$3.75 and a higher-priced shirt to sell at retail for \$6.00. The manufacturing cost, that is the material and labour cost, of the \$3.75 shirt is \$1.79, and for the \$6.00 shirt the manufacturing cost is \$2.73. The manufacturer's selling price to the retailer is \$2.21 for the lower-priced shirt and \$3.54 for the higher-priced shirt. These represent a 19 per cent and a 23 per cent mark-up respectively on the two types of shirts on the manufacturers' selling price. For the retailer the spread is 41 per cent on both types. The dollar and cent spread between the manufacturer's cost and the retailer's price is \$1.96 for the cheaper shirt and \$3.27 for the more expensive one. Under this conventional mark-up system it costs much more, presumably, to sell the more expensive shirt.² The standard defence of manufacturers and retailers of this practice is that the expenses of selling the better shirt are actually greater because the turnover on this class of merchandise is smaller and expenses chargeable to service and return goods are greater.

The conventional mark-up system has become more or less a tradition, without any consideration of the effects of prices on volume of sales. Time and again the evidence before us indicated that manufacturers and retailers seemed so firmly entrenched in their policy of fixed margins that they were unable to consider any other method justifiable.

RESALE PRICE MAINTENANCE

One pricing policy that is quite widely used and which has a definite relation to mark-ups and margins is the policy known as resale price maintenance. Resale price maintenance may be described as that price policy under which the manufacturer of a branded product establishes the price or at least the minimum price at which the product shall be sold to the consumer. This subject is discussed in some detail in Chapter 11.

In practice, the manufacturer who uses resale price maintenance has control of the mark-up or margin that the distributor may use on his product. Thus when a manufacturer states the price at which goods may be sold by a wholesaler or a retailer he in effect fixes the margins that these distributors may obtain. Hence, under this pricing policy, control of mark-ups and margins is taken out of the hands of the distributors.

¹Evidence, Royal Commission on Prices, p. 869.

²Ibid., p. 875.

It should be noted that maintained prices have the effect of placing all dealers on the same price basis. Probably the most important criticism that can be levelled at the practice of resale price maintenance from the consumer's point of view is that, under this practice, it is impossible for the low-cost merchants to sell at the prices their lower expenses warrant. If the low-cost, efficient retailers are forced to sell at the same prices as the high-cost inefficient merchants, the consumer is denied the advantages of efficiency. Further, the efficient retailers are likely to turn more heavily to various forms of non-price competition such as advertising and services which the consumer might be glad to forgo for lower prices.

"It seems unreasonable that dealers whose costs are lower, either because of reduced services or of greater efficiency, should be denied the use of price appeal, and that the consumer should not receive the price advantage which results".¹

There appears to be some variation between manufacturers with respect to the margins permitted to wholesalers and retailers in a period of rising prices. In some cases it appears that approximately the same dollar and cent margin has been applied while in others the same percentage mark-up has been used. Some tobacco companies we are informed have generally kept to the same dollar and cent mark-up when prices have risen. Apparently there has been little objection from the trade to this practice simply because of the great increase in the volume of sales which has permitted dealers to make a larger dollar profit with the same absolute mark-up. In most cases, however, it appears that the manufacturers have permitted the same percentage mark-up when the prices of the goods they sell rise, as was shown in evidence given before us by certain shirt manufacturers.² A thorough investigation of the number of articles to which resale price maintenance applies in Canada would be required to determine whether the over-all margins in the distributive trades have increased as much, or more or less, than those commodities which are not sold under resale price maintenance.

ACTUAL RESULTS OF DISTRIBUTORS' OPERATIONS TO 1946

The results of distributors' operations which we now examine are derived from two main sources, published data chiefly from the Dominion Bureau of Statistics and data obtained from the evidence given before us. Further references will be made to various chapters of Volume III as each chapter contains pertinent information on the margins and mark-ups prevailing in specific industries.

Operating Results of Retail Food Stores

Table 66 shows information regarding operations for each of five types of food stores for the years 1944-1946.

¹Clark & Clark, *Principles of Marketing* (New York, 1942), p. 702.

²Evidence, Royal Commission on Prices, p. 850.

TABLE 66
OPERATING RESULTS OF RETAIL FOOD STORES, 1944, 1945, 1946
(items expressed as percentage of net sales)

	Year	Grocery Stores	Combina- tion Stores	Meat Markets	Fruit and Vegetable Stores	Confectionery Stores
Average Net Sales per Store	1946	\$35,075	\$62,280	\$52,581	\$39,568	\$19,735
	1945	32,356	56,956	46,403	39,958	18,582
	1944	27,233	43,268	42,103	37,183	16,307
Gross Margin	1946	14.3	15.1	17.2	16.1	18.9
	1945	14.1	14.9	16.9	16.0	20.7
	1944	14.2	15.2	17.1	16.4	19.5
Total Operating Expenses	1946	8.3	10.3	11.4	9.6	10.1
	1945	8.0	9.9	10.9	9.4	10.6
	1944	7.9	9.4	11.1	9.8	9.9
Net Profits ^a	1946	6.0	4.8	5.8	6.5	8.8
	1945	6.1	5.0	6.0	6.6	10.1
	1944	6.3	5.8	6.0	6.6	9.6

a) Net profits before deduction of proprietors' salaries and income tax.

Source: Operating Results of Retail Food Stores, 1946, Dominion Bureau of Statistics, Ottawa.

From this table the following conclusions may be drawn: (i) With the single exception of confectionery stores, the gross margins in food stores were slightly higher in 1946 than in 1945. (ii) The total operating expenses were higher in 1946 than in the preceding year again with the exception of confectionery stores. The report of the Bureau shows that this increase was largely due to increased payroll. (iii) The net profits as a percentage of net sales were down slightly from both 1945 and 1944 for each type of food business but the dollar value of net profits per store showed marked gains. The improvement in dollar profits was due to the greater dollar volume of sales.

TABLE 67
GROSS MARGINS AND NET PROFITS IN RETAIL FOOD STORES
FOR SELECTED YEARS, 1938-1946
(items expressed as percentage of net sales)

Year	Grocery Stores		Combination Stores		Meat Markets	
	Gross Margin	Net Profit	Gross Margin	Net Profit	Gross Margin	Net Profit
1938	16.0	4.5	17.4	4.1	22.4 _a	5.6 _a
1941	15.2	5.7	16.9	5.2		
1944	14.2	6.3	15.2	5.8	17.1	6.0
1945	14.1	6.1				
1946	14.3	6.0	15.1	4.8	17.2	5.8

a) Data not available.
Source: Ibid.

It is useful also to compare the gross margin and net profit for food stores for earlier years with the corresponding figures for recent years. Table 67 shows the gross margins and net profits for certain years from 1938 to 1946 for combination stores, grocery stores and meat markets.

From this table we see that the gross margin for each type of food store declined between the year 1938 and 1941 and continued to decline through 1944 and 1945. This decline in gross margin no doubt reflects the influence of the over-all price ceiling which came into effect on December 1, 1941.¹ In order to meet the difficulty of rising costs, one of the methods adopted by the Wartime Prices and Trade Board was known as "sharing the squeeze". "To the extent to which the cost of replacing an article had risen beyond the level on which the retail price ceiling was based, steps were taken to get the producers and distributors to share the increased costs between them."²

We note, however, that the net profit as a percentage of sales increased in 1941 over 1938 and was still higher in 1944 and 1945. This appears to be due in large measure to the reduction in services under the Board's "simplification" program which resulted in the curtailment of certain services and the elimination of "frills". The operating results for 1946 reveal a trend of return to the higher gross margins and lower net profits of the pre-war period. The lower net profit in 1946 was due to

TABLE 68
BEGINNING AND ENDING INVENTORIES AND STOCK TURNOVER,
1938, 1941, 1945, 1946

Year	GROCERY			COMBINATION			MEAT		
	Beginning Inventory (dollars)	Ending Inventory (dollars)	Stock turn-over ^a	Beginning Inventory (dollars)	Ending Inventory (dollars)	Stock turn-over ^a	Beginning Inventory (dollars)	Ending Inventory (dollars)	Stock turn-over ^a
1938	2,570	2,472	9.9	2,275	2,265	13.0	732	723	31.0
1941	2,636	2,979	7.9	2,046	2,324	13.0	(not available)		
1945	2,382	2,468	11.5	3,084	3,176	15.5	882	972	41.6
1946	2,442	2,843	11.4	3,231	3,846	14.9	1,054	1,284	37.2

Year	FRUIT AND VEGETABLE			CONFECTIONERY		
	Beginning Inventory (dollars)	Ending Inventory (dollars)	Stock Turnover ^a	Beginning Inventory (dollars)	Ending Inventory (dollars)	Stock Turnover ^a
1945	1,212	1,283	26.2	970	1,030	15.3
1946	1,278	1,418	24.6	1,117	1,352	13.0

a) Times per year.

Source: Operating Results of Retail Food Stores, 1946, Dominion Bureau of Statistics, Ottawa.

¹Under the "Maximum Price Regulations" the retail prices of goods were fixed at the highest level at which they sold during the period from September 15 to October 11, 1941, known as the basic period.

²Report of the Wartime Prices and Trade Board, Ottawa, 1943, p. 21.

higher operating expenses as shown in Table 66, largely accounted for by increased wages and salaries. The tendency, however, to restore the services rendered in the pre-war period is also forcing up operating expenses and widening gross margins. This inclination was not as marked among food merchants in 1946 as in other lines but it will likely grow as competitive conditions return.

The increased rate of stock turnover as shown in Table 68 during the later war years was a factor tending to reduce the operating expenses.

From the table we note that the rate of stock turnover per year declined for every type of food store in 1946 over 1945. All stores carried inventories greater in dollar volume at the end of 1946 than at the beginning of the year.

In summary, the data given in this report of the Bureau of Statistics show a return in 1946 to larger gross margins and lower net profits as a percentage of sales. The increased dollar volume of the sales has resulted, however, in increased dollar profits. It is interesting to note, moreover, the relative constancy of the gross margins, particularly in grocery and combination stores, for the period 1938-1946. In view of the increased volume of sales and the increased rate of stock turnover¹ in this period, the gross margins display a rather remarkable constancy for food stores as a whole.

Operating Results of Retail Clothing Stores

The operating results of retail clothing stores are based on a survey by the Dominion Bureau of Statistics of a sample of firms throughout the country which covers four types of stores: men's clothing, women's clothing, family clothing, and family shoe stores. The sample includes both unincorporated and incorporated independent stores, but excludes chain stores.

The realized gross margins and net profits as a percentage of net sales for these stores are summarized for selected years in Table 69.

TABLE 69
GROSS MARGINS AND NET PROFITS OF RETAIL CLOTHING STORES
FOR SELECTED YEARS 1938-1946
(items expressed as a percentage of net sales)

Year	Men's ^a Clothing		Women's ^a Clothing		Family Clothing		Shoe Stores	
	Gross Margin	Net Profit	Gross Margin	Net Profit	Gross Margin	Net Profit	Gross Margin	Net Profit
1938	28.7	7.0	29.7	4.6	27.1	4.4	29.8	6.6
1941	27.7	15.3	27.5	9.4	^b	^b	26.3	9.3
1944	27.2	12.3	27.9	11.8	24.3	11.1	27.6	12.6
1945	27.5	13.5	27.7	11.5	24.8	11.5	27.3	13.9
1946	26.9	13.7	27.1	10.9	23.8	10.7	26.8	12.5

a) The data shown in this table are averages for unincorporated clothing stores only. Incorporated firms were not included in operating cost surveys prior to 1945.

b) Data not available.

Source: Operating Results of Retail Clothing Stores, 1946, Dominion Bureau of Statistics, Ottawa.

¹Cf. Table 68.

The following conclusions may be drawn from this table: (i) In the period 1941-1945 there was a decline in the gross margin from the year 1938 in all four types of clothing stores. This decline continued into 1946, all four types of stores obtaining slightly lower gross margins than in 1945. (ii) The net profit ratio for each of the four types of stores increased considerably since 1938. For example, in the men's clothing stores the net profit ratio practically doubled between 1938 and 1946, from seven per cent in 1938 to 13.7 per cent in 1946. With the exception of men's clothing stores there was, however, a slight decrease in the net profit ratio between 1945 and 1946. The increased dollar sales volume would, of course, more than offset this decline in the profit ratio.

The marked increase in the net profit ratio between 1938 and the later years is largely accounted for by the higher rate of stock turnover in all types of stores; for example, the rate of stock turnover in men's clothing and in family clothing stores was almost double the 1938 rate.¹ This increase in rate of stock turnover resulted in a considerable decline in the expense ratio similar to the retail food stores.

Again, it is interesting to see that the gross margins throughout the years shown in this table display a notable constancy.

This discussion of the operating results of certain retail stores as reported by the Dominion Bureau of Statistics, could have been expanded to include other types of retail outlets but, with minor variations, the pattern of behaviour of gross margins, net profits and operating expenses is quite similar to that indicated above and we did not feel any useful purpose would be achieved in extending the analysis further. By way of summary, however, the following highlights may be stated.

(i) There has been a tendency in most retail businesses for the gross margin to decline between 1938 and 1946. The movement, however, has been somewhat irregular as between the different kinds of businesses and between different sizes of business classification within each kind of business. This narrowing of the gross margins in the war years probably reflects the "squeeze" imposed on margins by the Wartime Prices and Trade Board during the over-all price control period.

During the first full post-war year, 1946, the change in gross margins does not conform to any definite pattern. For example, an analysis by the Dominion Bureau of Statistics of the average gross margins of independent retail stores in 21 different kinds of businesses reveals that nine had a slight increase in gross margins in 1946 over 1945, 11 had a slight decrease, and one experienced no change.

The lower gross margins in 1946 in some lines may be accounted for by one or all of the following factors:

- (a) Although there may have been no change, or a very slight change, in the initial mark-up percentages there was some reappearance of low-price, low-margin merchandise.

¹Dominion Bureau of Statistics, Ottawa.

- (b) There was a slight tendency for retail reductions to be higher, reflecting in part, the desire of some retailers to avoid the accumulation of any sizeable stocks of inferior wartime goods.
- (c) The method of import pricing used by the Wartime Prices and Trade Board was basically changed during 1946. In July that year the principle of "cost plus" pricing was applied, with a few exceptions, to imports from all countries. The mark-ups permitted were usually somewhat restricted. "In general the aim was to establish percentage mark-ups which were roughly equivalent to the dollar and cent margins which had prevailed prior to the war."¹ With the considerable increase in imports, especially from the United States, during 1946, this factor of restricted mark-up may have reduced the gross margin in certain lines.
- (d) In the case of some articles, for example certain types of furniture, the Wartime Prices and Trade Board permitted increases in the manufacturers' ceiling prices but distributors were required to accept a restricted mark-up so that the percentage increase in cost to the consumer was somewhat less than the amount of the adjustment at the manufacturing level.²

In any case, the change in gross margins was, in most cases, relatively slight as "adjustment" and decontrol were partially effected during 1946. As mentioned previously, there was a surprising degree of uniformity in the gross margins throughout the period 1938-1946.

(ii) Although there was a considerable absolute increase in certain operating expenses in the retail trade, particularly in salaries and wages, the expense ratio in most lines decreased from that existing in pre-war years. In several businesses the expense ratio rose in 1946 as compared with 1945. This resulted in a lower net profit ratio. But the increased sales volume and the higher rate of stock turnover which was manifest in practically all lines resulted in augmented dollar profits.

RESULTS OF DISTRIBUTORS' OPERATIONS, 1947-1948

The purpose of this section is to relate the variations in mark-up policies during the recent period of rising prices, as shown in evidence given before the Special Committee on Prices and ourselves, to the practices which have been usual in the Canadian economy in the past.

In the period of decontrol when the ceilings were removed, there was bound to be a certain amount of readjustment involving a return to former margins. Moreover, a tendency towards a widening of mark-ups and margins would be particularly evident in a sellers' market.

A general pattern of the policies of manufacturers, wholesalers and retailers with respect to margins and mark-ups may be derived from the evidence presented before us. Certain conclusions will be qualified by data obtained from our investigations into the various manufacturers and distributors.

¹Report of Wartime Prices and Trade Board, Ottawa, 1947, p. 45.

²*Ibid.*

That the practice of maintaining a fixed percentage mark-up prevails very generally was established by the evidence given by manufacturers and distributors of bread, meat, fruits and vegetables, shoes, men's fine shirts and many other commodities. In general, this practice appears to be much more rigorously adhered to in the distributive trades than among manufacturers although in certain trades it is evident even at the manufacturing level.

In the case of men's fine shirts, for example, manufacturing costs have risen greatly since 1939 and the distributors maintain the same percentage mark-up even in view of greatly expanded sales.¹

The effect, of course, is a pyramiding of prices to the consumer and a very comfortably enhanced profit in dollars and cents for the distributors.

The shoe retailers exhibit the same characteristics.² Mr. H. R. Pollock of Pollock's Shoes Limited, a retail chain of stores operating in Toronto, testified that his company endeavoured to maintain price lines for shoes and that manufacturers, on his instructions would make shoes to suit his particular price lines.

Mr. Pollock stated that his company arrived at an average mark-up of 50 per cent on cost. Looking at a specific model of shoe, work boots No. 278, we see that Pollock's obtained the margins over cost shown in Table 70.

TABLE 70
SELLING PRICES AND FACTORY DOOR COSTS IN DOLLARS,
WORK BOOTS No. 278

Date	Selling Price per pair	Cost per pair	Margin in dollars	Margin Per Cent of Cost
July 1, 1939	3.45	2.48	0.97	39
July 1, 1942	3.45	2.48	0.97	39
July 1, 1946	3.95	2.59	1.36	52
July 1, 1947	4.95	3.20	1.75	55
July 1, 1948	6.50	4.38	2.12	49

Source: Evidence, Royal Commission on Prices, p. 609.

In this particular company the increased volume of sales coupled with the higher realized mark-up, resulted in an increase in net profit from \$10,373 in 1939 to \$84,168 in 1948.³

During the winter of 1947-1948 there was a notable widening of margins in the fruit and vegetable distributive trades, especially in the imported lines. The provisions of the Emergency Exchange Conservation Act curtailed supplies to a large extent.⁴ This was an example of how restriction of supply can lead to increased margins and mark-ups and greatly enhanced prices to consumers. Evidence showed that the increased margins "were more than necessary to compensate for the loss in volume, with the result

¹Cf. Chapter 10, Vol. III, Secondary Textiles.

²Cf. Chapter 9, Vol. III, Leather Footwear.

³For fiscal year ending February 28.

⁴Cf. Chapter 3, Price Control and Rationing.

that higher than normal profit was earned during the winter months of 1947 and 1948."¹

The net operating profit, before taxes on income, earned by six fruit and vegetable wholesalers for the months of November to March increased from \$80,904 in 1946-1947 to \$165,539 in 1947-1948.²

The retail meat business shows the established trend of a customary or prevailing margin.³ Between the removal of the price ceiling in October, 1947, and April, 1948, several sharp increases took place. Actually the margin on meat as a percentage of sales declined but once again due to the increased sales the margin in dollars increased.

An interesting point here is the fact that retailers took a slightly lower margin on meats after April, 1948 in the face of very strong consumer resistance. But still the general tendency was to cling to the fixed percentage mark-up.

The examples cited above from the evidence, were selected more or less at random for purposes of illustration and do not by any means cover the complete list of commodities investigated. However, as far as marks-ups and margins are concerned, an examination of the evidence taken on the remaining commodities indicates that with a few exceptions the same general pattern exists. This pattern shows in the majority of cases that manufacturers, wholesalers, and retailers, follow the percentage system of mark-ups and margins and use, in each trade, an established or customary mark-up or margin.

The effect of this practice is to magnify considerably an initial increase in cost of production by the time the commodity reaches the consumer. In other words, the cumulative effect of the percentage mark-up results in a pyramiding of every increase in cost through all the stages of distribution. The evidence submitted indicates that the percentage system of mark-ups and margins is a firmly established practice, so firmly established in fact that most witnesses were unable to think in any other terms or to offer explanations as to why they should continue the practice in a period of rapidly rising prices.

SUMMARY AND CONCLUSIONS

In general, we can say that two broad practices with respect to mark-ups and margins in the distributive trades are possible in a period of rising prices:

- (i) to maintain the same percentage mark-ups on merchandise when the laid-down cost to the wholesaler or retailer rises; or
- (ii) to maintain the same dollar and cent mark-up.

By and large the evidence before the Special Committee on Prices and ourselves indicates that the former practice is much the more prevalent in the distributive trades.

¹Evidence, Special Committee on Prices, p. 3941.

²Ibid., p. 3942, and see Chapter 5, Vol. III, Fruits and Vegetables.

³See Chapter 4, Vol. III, Meat.

Here is what Mr. J. W. Ford, Executive Secretary of the T. Eaton Company Limited, says in justification of the system of the fixed percentage mark-up system as opposed to the fixed dollar and cent mark-up on each and every separate item:

"It would be almost a physical impossibility, to begin with, to record and keep a fixed dollar mark-up for each article in the large number that the average retailer carries. For instance, we were not able to give you the number of pairs of shoes we sold because we do not keep the number of shoes we sell. We are simply interested in the total dollar volume of business and we gave you a substitute figure. We simply cannot keep all the records that would be necessary to establish and maintain a fixed dollar mark-up on each and every separate item".¹

Some firms, however, in a period of rising prices appear to strike a course lying somewhere between the rigid application of either of these practices; that is, they take slightly lower percentage mark-ups when the cost of their merchandise rises but, on the whole, achieve a larger dollar and cent mark-up. The increased rate of stock-turnover in most lines in recent years has permitted many firms to take a lower mark-up and yet realize larger net profits in dollar terms.

Whether or not the system is justified from a practical business standpoint, the net effect of maintaining relatively constant percentage mark-ups or margins in the distributive trades in a period of rising prices is to magnify the effect of a price rise at the manufacturing, or producer level in the price paid by the ultimate consumer. If, on the other hand, a constant dollar and cent mark-up were used in the distributive trades the increase in the price paid by the consumer would reflect only the initial rise in price at the manufacturing, or producer, level.

Naturally then which of these two methods is used is a matter of vital concern to the consumer. However, we have left out of consideration any reference to possible changes in the wholesaler's or retailer's operating expenses. Hence the basic question is: has the price to the consumer increased above the level justified by increased costs? As mentioned previously, this question can only be answered by an analysis of individual cases.

The evidence referred to previously indicates that costs in absolute terms in the distributive trades have increased, particularly salaries and wages, during the price rises of recent years. The same evidence suggests, however, that the costs as a percentage of net sales have increased only moderately, and in many cases have actually decreased, with the result that dollar profits have been augmented. In a sense then the basic problem is to decide whether or not the increased dollar profits in the distributive trades are justified.

Evidence presented before us showed in many instances that return on the shareholders' equity had greatly increased over the period under

¹Evidence, Royal Commission on Prices, p. 628.

discussion. For example, Mr. S. B. Nitikman, Secretary Treasurer of the Western Glove Works Limited, stated that his company made 50 cents per share in 1937, whereas in 1947, the net profit per share was \$90.¹ Ayer's Limited, woollen manufacturers, reported to the Special Committee on Prices, that its percentage of profit to capital was 8.7 in 1937, and 16.5 in 1947.² We find it difficult to justify the maintenance of a fixed percentage mark-up throughout the marketing process when net profits show greatly increased returns on the shareholders' equity.

The issues with respect to mark-ups and margins seem to fall naturally into two major categories.

(i) Are present profits in the distributive trades too high? If this question is answered in the affirmative then some appropriate course of action, or policy, should be recommended that would effect a reduction in these profits to a level that is considered "reasonable".

If, however, this question is answered in the negative, that is, that by and large, profits in the distributive trades are not considered to be too high in relation to other incomes in the economy, then consideration must be given principally to methods of reducing the prices that are paid initially by distributors for the merchandise they sell.

(ii) Whether or not it is felt that profits in the distributive trades are too high, it might be felt that under present circumstances the overall costs of distribution are too high. It should be noted that, even in a period of low prices, there is considerable agitation to reduce distribution costs; in other words, this is a problem that is not peculiar to periods of high prices.

Any attempt to answer the questions that have been raised here must take the following factors into consideration.

(i) Generally speaking, profits in the distributive trades are not large. This statement is particularly true if we consider profits in distribution over the course of the business cycle. Yet many people believe that it is the profits of middle men that are largely responsible for the high cost of distribution. It is, of course, true that some distributing organizations, particularly those in the newer and more successful branches of retail distribution, have been conspicuously profitable but these are the exceptions rather than the rule.

As yet, we do not have adequate data on costs of distribution in Canada nor are the data fully satisfactory in the United States. However, a study³ made in the United States in 1939 reveals that distributors' profits do not constitute a very large proportion of the total cost of distribution. Moreover, a study made by the Harvard Bureau of Business Research of operating results of several hundred department stores over the course of the business cycle from 1929 to 1936 showed that the only years in which profits were made by the group as a whole were 1929, with 1.2 per

¹Evidence, Royal Commission on Prices, p. 1143.

²Evidence, Special Committee on Prices, p. 3746.

³Does Distribution Cost Too Much? The Twentieth Century Fund (New York, 1939).

cent on sales, and 1936, with 1.6 per cent. Losses rose as high as 6.4 per cent of sales in 1932.¹

If we refer to the Canadian data quoted above we can see that, for example, in 1938 only 4.5 cents out of the consumer's dollar spent in independent grocery stores went on the average to the grocer as profits. In 1946, the corresponding figure was six cents. In 1938, out of the consumer's dollar spent in independent women's clothing stores only 4.6 cents went to the retailer as profit. By 1946 this figure had risen to 10.9 cents. This represents, of course, a considerable increase in the profit ratio but if it were averaged out with the fluctuations of the business cycle, the result would be considerably lower than this figure.

In brief, the complete elimination of the distributors' net profit from the cost of distribution would not significantly affect the average prices paid by consumers.

(ii) Even though distributors' profits constitute only a relatively small fraction of the total cost of distribution, this does not necessarily imply that distribution costs are not "too high". However, it would seem that substantial economies in the field of distribution "must be sought chiefly in reduction of operating expenses, either through elimination of services or by performing distribution services more efficiently and economically".²

The greater portion of the distributor's gross margin is absorbed by his operating expenses. These costs include salaries, wages, rent, interest, and so forth. Since some of these costs are relatively fixed, at least in the short run, the operating expenses as a proportion of sales tend to decrease as sales volume increases. It is probably in the long run reduction of these operating expenses that the greatest hope lies for the reduction of mark-ups and gross margins.

It must be borne in mind, however, in this connection that

"the consumer himself can properly be charged with a part of the responsibility for the higher distribution costs which have resulted from competition for his favor. The buyer expects, or has been led to expect, from the distributor a multitude of costly privileges and services which cannot be dispensed with until the buyer's attitude itself has been changed."³

Moreover, it is important to note that in many types of operation, both in retailing and wholesaling, operating expenses are taking a smaller percentage of the consumer's retail sales dollar than they did in pre-war years. In spite of this fact, however, there still remains widespread public misunderstanding of retailers' and wholesalers' costs of doing business. The case has been well stated as follows:

"The persistent public ignorance and misunderstanding of distribution costs is commonly thought to be related in some part to the rather intangible character of those costs. It is quite true that no

¹Operating Results of Department and Specialty Stores in 1936. Harvard Bureau of Business Research (Cambridge, 1937).

²Twentieth Century Fund, *op. cit.*, p. 336.

³*Ibid.*, p. 339.

one can wear a pair of shoes which is one of a case lot in in a manufacturer's warehouse, or sleep under blankets that are packed in cartons on the dry goods wholesaler's shelves. But these utilities of time, place, dispersal and combination are not anything than can be seen, felt, or tasted. They make no alterations in the form or appearance of an article. Hence they do not seem to be 'real', even though they are just as much part of the cost of producing the final utilities to the consumer as are the costs of raw materials and manufacturing processes."¹

Finally, we fail to see the necessity of adhering to a fixed percentage mark-up system over the years, in the face of changes in the volume of business transacted. When the rate of stock-turn increases substantially there tends to be a reduction in operating expenses, and we cannot seem to justify the augmented dollar profits made by the distributor who invariably maintains the same percentage mark-up as when his rate of stock-turn was lower.

¹Operating Results of Department and Specialty Stores in 1944, Harvard University, Bureau of Business Research (Cambridge, 1945).

RESTRICTIVE BUSINESS PRACTICES

THE rapid increase of Canadian commodity prices since the war has been attributed by a considerable body of opinion to restrictive practices on the part of monopolistic businesses.¹ This view in many ways is not an unnatural one; a study of the evidence given before both the Special Committee on Prices and ourselves reveals at least a suspicion that some important articles of every day use were not subject to price competition. Accordingly, in our examination of the evidence and our study of the problems of selected industries, we endeavoured to find the extent of monopolistic practices and to determine if they have been an important factor in the post-war rise in prices.

In spite of the increasing responsibility placed on governments in economic matters, business in Canada remains essentially subject to private direction and control. This system is referred to as one of private enterprise, in which competition is an important regulating force. The evidence makes clear that this competition takes many forms, that only in rare instances does it approximate perfect competition as defined by economists, and that there have been tendencies in certain industries in the direction of monopolistic competition. The experiences and influences of the war period have, if anything, hastened the process by consolidating the position of large corporations, and creating conditions conducive to the spread of patterns of behaviour from which active price competition is excluded.

EFFECT OF WARTIME CONTROLS

The effective organization of industry for war purposes required concerted rather than competitive efforts in many aspects of business activity. Reductions in the variety of products manufactured and in delivery and other services were among the more apparent restrictions which were effected through government co-operation with the business groups concerned. Trade associations in many instances proved effective agencies through which the need and details of wartime controls could be explained to business firms. Existing trade organizations were strengthened and new associations² were formed under the stimulus of war needs. Their prestige became enhanced as they acted as intermediaries between government agencies and business in the adoption and application of various measures of control. At the same time business men learned to work more closely together and to accept, as a matter of common practice, the discussion of aspects of their business which, under peacetime conditions, might have been regarded as matters for individual decision in the light

¹Evidence, Royal Commission on Prices, p. 2112.

²Thirteenth Report on Organization in Industry, Commerce and the Professions in Canada, 1947. Dept. of Labour, Canada.

of the prevailing competition. The possibility that the establishment of such patterns of behaviour might lead to less rather than more enterprise was referred to in the following terms by the Commissioner of the Combines Investigation Act when he appeared before the Special Committee on Prices:¹

“Throughout the war years concerted action on the part of producers and distributors was encouraged rather than discouraged by government agencies, and quite properly. Under a direct control system, quicker and more effective action can be secured if the one controlling agency can deal with a single organization representing a whole section of a trade or industry rather than with a multitude of independent units. These groups played an important and highly useful part in the wartime control of their respective industries; but, the last word, the ultimate control, lay not with them but with government. We may well be concerned, however, lest the restrictionist philosophy which is inherent in these emergency controls should motivate such strongly organized groups to certain types of action that are not at all appropriate to a system of competitive enterprise. Perhaps it is only natural to expect that some industries might be tempted, once the State discontinues the fixing of maximum prices in the public interest, to substitute fixing of minimum prices in their own interest.”

Another factor of considerable importance, carried over from the period of wartime control, is that the pricing policies of individual business men have been affected substantially by the forms in which price regulations were cast. It is a danger in all price regulation that the established maximum prices tend to become minimum prices and that any price established by government order, as long as it does not put a “squeeze” on sellers, is accepted by them, regardless of their individual circumstances, as a “reasonable” price even though it must of necessity be established on an arbitrary basis so as to be of general application. This tendency has a marked influence while maximum prices are in effect, but what we think of more lasting significance and what turned up in the evidence before us repeatedly, is the persistence of such an attitude after price regulations have been withdrawn. Mark-up controls, for example, were established under wartime regulations for each stage of distribution, but the margins they provided were intended to be, as the regulations clearly stated, the maximum margins which could be charged. Continuance of such mark-up controls, not by government but by business groups themselves, and designed to fix minimum rather than maximum margins, appears to be favoured in many lines of trade. Manufacturers as well as distributors have come to regard such methods of determining prices as established trade practices which were approved by government authorities during the war period and which they should be entitled to maintain by common action in the industry after the lapse of wartime orders. One example of several

¹Evidence, Special Committee on Prices, p. 158.

illustrating this was afforded to us by some testimony during our inquiry into shirts. When asked whether the objective in setting the retail price is to give the retailer 37½ per cent on sales a witness replied

“That is not our objective at all. We estimate what a shirt can be sold at and then we try to fit that into the price so that it comes into the category of that retail price arrangement that the Wartime Prices and Trade Board put through.”¹

The maximum mark-ups established in price control orders were continued into the period of decontrol as the minimum margins which should be recognized in the trade. If there is any general demand on the part of distributors for a higher margin, the tendency often is to accept this in itself as justification for such a move. The widespread acceptance of such practices could result in a pattern of behaviour which may be as effective in maintaining or increasing prices as formal agreements.

Because of the absence of effective action to ensure competition in price in our system of private enterprise, such habits may persist beyond the period of inflation and can become even more significant when conditions of supply would be expected to lead to reductions in price. In a period of rapidly rising prices, such as we have experienced, it is natural for the public to become concerned over the possibility of exploitation by combinations of suppliers or monopolistic groups. The absence of competition, under easier conditions of supply, may have effects even more serious and less likely to be noticed.

“Much more frequent, and much more insidious, is a state of affairs where profits are far from exorbitant, simply because high prices are matched by high cost; where monopoly produces its effects indirectly, through actual penalties on enterprise, and through the barring of entry to the promising newcomer with a good idea. It is on a dynamic view of economic affairs that monopoly and near-monopoly stand condemned . . .”²

In the period between the two World Wars and particularly during the depression, some headway was made by organizations and individuals who advocated various forms of what was frequently referred to as “self-government of industry”. Some favoured assigning to the government a general supervisory role; others considered that the power of government should be used to secure the adherence of firms which might wish to pursue an independent course. Still others advocated a more complete form of industrial self-government which envisaged nothing in the way of either state interference or state support. The experience under the National Recovery Act codes in the United States did much to explode the theory that stability and business progress could be secured by using the authority of the state to enforce restrictive business agreements. The difficulties of administering wartime controls have served to emphasize the limitations which exist in measures for government supervision or regulation.

¹Evidence, Royal Commission on Prices, p. 824.

²The Economist, London, March 20, 1948.

LEGAL RESTRAINTS

Since 1889 there has been in Canada some statute law against combinations in restraint of trade. It was embodied in the Criminal Code in 1892 and was supplemented by the Combines Investigation Act of 1910. The latter Act was replaced by the Combines and Fair Prices Act, 1919, which, after declaration of its constitutional invalidity by the Judicial Committee of the Privy Council, was replaced by the present Combines Investigation Act in 1923. The provisions of section 498 of the Criminal Code and of the Combines Investigation Act are much the same with respect to the definition of unlawful combination in restraint of trade. Section 498 makes it an offence for two or more persons to conspire, combine, agree or arrange to lessen competition unduly. Under the Combines Investigation Act the offence is described as that of preventing competition to the detriment or against the interest of the public. Courts have held that the latter has the same meaning as "unduly" in section 498.

The Combines Investigation Act also condemns monopolies, trusts and mergers which operate to the detriment of the public. A significant difference between the two statutes is that the Combines Act provides for the investigation of alleged offences and for the publication of the reports of such investigations. Since the end of the war reports have been published as a result of investigations into international cartels and the dental supply, optical, bread baking and flour-milling industries. The adoption of emergency controls, embracing practically all branches of trade and industry as World War II reached its climax, led to the virtual suspension of activities under the Combines Act. Legislative policy was reaffirmed by Parliament in 1946 when amendments were adopted to permit more effective administration. These now make it possible for the Commissioner under the Act to investigate complaints of practices alleged to be offences under section 498 of the Criminal Code, and also under section 498A which relates to offences of price discrimination resulting in the curtailment of competition. The amending Act of 1946 restored a provision similar to that which had been in the Act from 1923 to 1937, whereby the Commissioner could proceed on his own initiative with an inquiry to determine whether a combine exists or is being formed. As the Act now stands, preliminary inquiries may be made as a result of complaints from the public, on direction of the Minister of Justice or on the initiative of the Commissioner. If such inquiries disclose evidence to warrant more extensive proceedings, a formal investigation is made.

Once the public becomes aware that the policy embodied in Canadian legislation against undue restraint of trade is being applied effectively and consistently, much wider effects should result than those directly related to particular investigations or prosecutions. Not only will there be desirable clarification of the law but business will be aroused to take stock of practices similar in character or effect to those condemned by the courts. As one writer has put it, there is need "to jolt business out of the habits or regimentation and self-government appropriate to the

regulated war economy, into the free enterprise, non-collusive habits required in the absence of direct control".¹

Publicity, which was stressed in the recommendations of the Special Committee on Prices, is one of the most effective means of safeguarding the public from harmful trade practices. The publication of the reports of investigations under the Combines Investigation Act has been a basic principle in the legislation since the first act was passed in 1910.

A competitive market has been defined as one possessing, at least, the following characteristics:

- (a) alternative sources of supply;
- (b) alternatives in business policy with respect to price, production, or the kinds of goods or services offered;
- (c) flexibility in business policies with respect to prices and other important terms of sale;
- (d) freedom of entry into the industry or trade.

One writer has summed up these characteristics by stating that "workable competition implies the availability to both buyer and seller of an adequate number of alternative courses of action." He goes on to say:

"It is clearly not enough that buyers have a number of sellers from whom to choose or that sellers have a number of customers to whom they can sell. There must be on the part of buyers and sellers an independent probing of the possibilities in the situation."²

It is this independence of business activity which legislation against undue restraint of trade is intended to preserve as an essential condition of free enterprise. Such independence disappears when all or the principal firms in an industry or trade agree on common pricing policies or other vital conditions of sale or distribution. The buyer, in such circumstances, no longer has available to him "an adequate number of alternative courses of action." He finds wherever he turns that the same price is demanded, the same conditions for acceptance as a customer, the same terms of sale and so on. The defence of such common practices has always been that they are "reasonable", but when the regulating effect of competition is removed other checks on "reasonable" conduct cannot be relied upon as adequate public safeguards. The ever-present dangers in such circumstances are suggested by the following:

"What, for instance, is a fair price? What is a reasonable gross margin? A few years ago the Select Committee on National Expenditure suggested "there has not yet been evolved a tech-

¹V. W. Bladen, "The Combines Investigation Commission and Post-war Reconstruction", Canadian Journal of Economics and Political Science, Vol. No. 10, Number 13, August, 1944, p. 343.

²E. S. Mason, "Competition, Price Policy and High Level Stability", in symposium, Economic Institute on Pricing Problems and the Stabilization of Prosperity, Chamber of Commerce of the United States, September 18, 1947, p. 19.

nique which solves satisfactorily the essential problem of how, in the absence of free competition, to settle the "right price" to be paid for a particular article."¹

In applying Canadian legislation our courts have consistently declined to assume the responsibility of determining what is a reasonable price when the issue is one of restraint of trade. Instead they have endeavored to determine that there has been undue interference with the free course of trade, and American courts have apparently followed the same line of reasoning.

In many fields of Canadian industry, because of the size of the market or for other reasons, the number of producers is relatively small and the alternative sources of supply in the domestic field consequently limited. In such circumstances freedom of entry into a particular field of distribution or use of the products made by a limited number of producers is restricted if the suppliers follow a policy of selling only to "recognized" customers. This danger is lessened when similar products are freely available from foreign countries on terms which permit the new firm to compete successfully with those already established.

Recognition of the importance of such outside competition appears to have been one of the reasons for an amendment made to the Customs Tariff Act in 1948 which provides that the dumping duty is not to be applied on

"goods which, though of a class or kind made or produced in Canada, are not offered for sale to the ordinary agencies of wholesale or retail distribution or are not offered to all purchasers on equal terms under like conditions, having regard to the custom and usage of trade."

The extension of this principle to provide not only for the lifting of the dumping duties in such circumstances, but also for a positive reduction in the tariff, might, we think, do much to facilitate freedom of entry. Customs duties may now be reduced or removed, under Section 17 of the Customs Tariff Act, in the event of producers taking advantage of any duty to maintain prices at levels higher than should prevail. If reductions of customs duty were made possible also where producers take advantage of the tariff to thwart freedom of entry by selling only to already established wholesale or retail outlets, a generally more competitive condition would, we think, result. If new entrants are prevented from trading in Canadian goods and the customs tariff prevents them from selling similar imported goods at competitive prices, some redress such as tariff reductions might, we think be salutary.

RESALE PRICE MAINTENANCE

Resale price maintenance has been referred to frequently both in this report and in the evidence as a practice which is responsible for

¹Corwin D. Edwards, "Can the Anti-Trust Laws Preserve Competition", *American Economic Review*, March, 1940.

increasing costs of distribution. This term which is described in Chapter 10, is applied where the manufacturer of a branded product imposes as a condition of sale, a fixed price at which the retailer must sell the product to the public. The interest of consumers in this question was expressed by the Canadian Association of Consumers and the National Council of Women in their joint brief, which referred to the growing practice of resale price maintenance as a matter of grave concern to consumers. A few firms represented at our hearings admitted establishing resale prices on such products as shirts¹ and shoes.² Certain eastern bakers stated that they suggested resale prices on their bread, but did not insist upon the retail stores observing them.³ The recently published report of the Combines Investigation Commission on the bread baking industry in western Canada states, however, that certain western bakers have declined to sell bread to merchants who sell at prices lower than those fixed in furtherance of a general plan of resale price maintenance which the Special Commissioner found to be one feature of the activities of an alleged combine. It is evident that the practice is growing and is having a significant effect on the prices which the public has to pay for goods in a number of lines of trade. It becomes a matter of special public concern when dealer competition is eliminated by the fixing of resale prices of certain foods, and particularly such an essential food product as bread.

In the United States the Miller-Tydings Enabling Act has legalized resale price maintenance in interstate commerce. We consider it would be unfortunate for Canadian consumers if any such proposal were to receive legislative sanction or encouragement in this country. Indeed positive action to discourage the practice or at least to remove its undesirable features would, we think, be more in the public interest.

Representatives of several manufacturers presented to us various reasons for the growth of the practice of suggesting or requiring the observance of fixed resale prices. It seemed evident that in certain instances the policy was adopted by the manufacturer to meet the wishes of distributors and to avoid what was termed "confusion in the trade". This "confusion" may have been what was described by another witness as "competition that exists among retailers" when resale prices are not set by the supplier. In other instances, it was suggested that resale price maintenance was introduced to protect the small retailer from special sales by large distributors and to enable him to make a profit which would keep him in business and encourage him to promote the sale of the price-maintained goods. The Commissioner of the Combines Investigation Act, when he appeared before the Special Committee on Prices, made the following comment in his reference to resale price maintenance:

"One cannot deal with the problem of resale price maintenance without recognizing that some manufacturers may have some jurisdiction in seeking to protect the prestige of their product by maintaining

¹Evidence, Royal Commission on Prices, pp. 823, 869, 986.

²*Ibid.*, p. 595.

³Evidence, Special Committee on Prices, p. 1051.

some supervision over the conditions under which it is sold to the public. The protection of good-will, however, may often be the cultivation of the dealer so that he will push the manufacturer's product rather than the maintenance of prestige in the mind of the public. One can understand also the motive of dealers who are genuine in their desire to remove the evil of predatory price-cutting and that alone. The motive of most dealers, however, who are pressing for resale price maintenance seems to be not only to eliminate such forms of unfair competition, but all price competition in the particular products. If this is not their motive it would seem to be the effect of their proposals. In seeking by means of private trade sanctions to prevent the occurrence of predatory price-cutting, the dealers deprive the public of the safeguard of reasonable price competition at the distributive level. Experience in other countries tends to show that the adoption of this form of private price control leads to further demands for the control over new entrants to the trade so that the advantage may not be dissipated by having to be shared with others who are attracted by the guaranteed margins."¹

Resale price maintenance has been dealt with in a number of investigations under the Combines Investigation Act, but usually in conjunction with other restrictive practices. It was the sole issue in one inquiry, that into the Proprietary Articles Trade Association. Two reports were published, in 1926 and 1927, in which conclusions were expressed that the public interest was detrimentally affected. The Proprietary Articles Trade Association was disbanded shortly after the final report was published. The same conclusion was reached in the following investigations which dealt with certain aspects of the problem: tobacco, 1938, dental supplies, 1947, optical goods, 1948, and bread in western Canada, 1948.

Our examination of the problem of resale price maintenance has necessarily not been complete enough to permit a conclusion as to all the circumstances in which the practice should be declared to be against the public interest. From the examples we have examined, it appears that as a whole the disadvantages to the buying public greatly exceed any possible advantages. In certain circumstances, as, for example, a combination of dealers arranging with a manufacturer to adopt resale price maintenance, or where several manufacturers jointly agree upon such a policy, the Combines Investigation Act in its present form would appear to provide a remedy for undue restriction. A different situation arises where a single manufacturer, acting independently of other manufacturers and without pressure from dealers, requires all dealers to maintain the minimum resale prices which he establishes. Price competition amongst dealers in the sale of these particular goods is thereby seriously limited if not eliminated. In dealing with such a case, the effect on the public would be determined by consideration of many factors, including the volume of the

¹Evidence, Special Committee on Prices, p. 161.

manufacturers' sales of these goods in relation to the total sales of goods of the same class and kind, the availability of other similar goods which are not subject to such restriction, and the extent to which the customs tariff may permit or prevent imported goods from competing with the price-protected lines. Similar considerations would apply where the practice takes a less definite form and is one of suggestion rather than of insistence.

MONOPOLISTIC PRICES IN AN INFLATIONARY SITUATION

So far we have been dealing only with the growth of monopolistic practices during wartime and thereafter, the legal restrictions to monopoly operation, and the means by which such restrictions could be enlarged. We have not until now discussed monopoly operation as an inflationary factor.

Generally speaking, we have not found that monopolistic practice in any of its forms has been a major factor in the general rise in prices, though in some of its aspects it has been a contributing factor. Nearly all monopolistic businesses are subject to a degree of legal and social restraint. Public utilities boards and other rate-making bodies exercise some control of the price policy of the so-called "perfect monopolist" and all of them, even those borderline cases where monopolistic practice is not clearly and positively indicated are subject to inquiry at any time by the Combines Investigation Commission. Perhaps of even greater effect however, are the social restraints, the concern of the monopolistic firm for good public relations. Thus the firm engaging in monopolistic practice will carefully weigh the possible reaction of labour to any attempt to increase prices beyond a point which can plainly be justified. In short such a firm is subject to the constant pressure of opinion and to the suspicion of a public which is not unready to lay at its door responsibility for a good many of our economic ills.

A further influence which we believe has affected to an important extent the pricing policies of monopolistic firms is the desire to achieve long-run price stability. Thus we think the firm which is operating under any of the various forms of monopoly is principally interested in eliminating the vagaries of the business cycle by securing for itself a stable price structure over a period of time. Hence, while prices under these conditions as we have said, tend to be set on the whole not as high as they probably could be in an inflationary situation, they are maintained at a higher level than competitive conditions would indicate in a deflationary situation.

The net result in our opinion is that over a period of time the elimination by the monopolist of the "peaks and valleys" tends to place the average price of his goods above what would be the competitive level. As the Royal Commission on Price Spreads said, "price no longer automatically adjusts itself to supply and demand, and no longer reacts quickly to changed economic conditions. The dominant producers fix the price they deem most profitable and attempt to adjust their production to sales at that determined price."¹

¹Report of the Royal Commission on Price Spreads, 1935.

SUMMARY AND CONCLUSIONS

We have examined at some length the tendency we have found during the course of our own inquiry as well as that of the Special Committee towards the growth of monopolistic practices. We have shown that the wartime stabilization program by its very nature tended to restrict the competitive forces in the economy and was conducive to the formation of habits of price and commodity standardization in industry. These tendencies have become perpetuated to some extent in the post-war situation.

On the question of resale price maintenance, a recommendation appears in Volume I. We conclude that the advantages to the public claimed for this practice are greatly outweighed by the disadvantages. Resale price maintenance, like other forms of restrictive practices, does offer what appears to the manufacturer and distributor, a happy relief from the unending struggle against the harsh correctives of the free market system. But the solution, we think, is illusory. It not only vitiates the spirit of enterprise by which all commercial and industrial life is nourished; it deprives the consumer of his right to seek out and patronize the more efficient distributors, namely those who, over a period of time can offer goods for sale at prices lower than their competitors.

Finally, on the basis of the evidence before us, we have concluded that although the concentration of economic power reduces the "competitive spur of efficiency", and although we regard it as undesirable socially and economically, it has not been one of the major or underlying factors in the present rise in the cost of living. We feel that the degree of sheer price exploitation engendered by monopolistic practice is much less in inflationary than in deflationary periods. Or, as one writer has put it:

"All this need not alter our social and economic evaluation of the evils of monopoly. But to blame monopolistic price policies for the 'exorbitant' increases in the price level during the last years is to turn the real picture topsy-turvy".¹

¹Fritz Machlup, *Review of Economics and Statistics*, February, 1948.

VOLUME III

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Volume III

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1

THE COST-OF-LIVING INDEX

THROUGHOUT this report reference is made to the cost-of-living index prepared by the Dominion Bureau of Statistics. To an increasing extent, too, it is being used by the public to measure the general effect of changing prices on the average family pocket book. We therefore include in this report an outline of the purpose of the cost-of-living index, how it is constructed and the method used to adjust it to changing conditions. While the treatment is popular, the factual material has been checked with the Bureau for accuracy.

WHAT THE COST-OF-LIVING INDEX IS DESIGNED TO DO

The cost-of-living index is designed to measure the changes in the cost of an average urban wage-earner's family budget from month to month, both for the total budget and for the six main groups of family expenditure, food, clothing, shelter, fuel and light, house furnishings and services, and miscellaneous items.

It is a measure of price changes only; it is not intended to measure changes in the standard of living although in the long view, adjustments are made to reconcile a changing standard. The same family budget is priced from month to month over a long period of time, using the same quantities and qualities of all items included in the budget. No allowance is made for people buying more goods or better goods, since this is really a change in the standard of living, not a price change. To quote Mr. Herbert Marshall, the Dominion Statistician:

"What the maker of a cost-of-living index tries to do is to establish a basket of goods which do not change in number, quantity or quality, price it from month to month, and express the latest cost as a percentage of the cost in the base period."¹

It should be remembered, too, that the index measures only average changes in the cost of living. Due to their particular circumstances, the cost of living for some families will have risen more sharply than the average and for others less sharply. There are variations also in the change in living costs for cities in different parts of the country, but the indexes prepared by the Bureau for eight major Canadian cities show that the inter-city differences are relatively small.

¹Evidence, Special Committee on Prices, p. 17.

HOW THE COST-OF-LIVING INDEX IS CONSTRUCTED

There are five main steps in setting up and operating a cost-of-living index, which will be summarized briefly at this point and described in more detail further on:

1. Making a budgetary survey to determine what is the average budget of an average family, and what proportion of the family income is spent on food, clothing, rent, etc. This indicates the relative importance or "weight" to give each item or group of expenditures.
2. Selecting representative items from each main group in the average family budget for regular pricing.
3. Pricing these items across Canada, monthly in most cases, and compiling accurate reports of average prices from this information.
4. Weighting the various items and groups of items in the index in proportion to their importance in the family budget, as determined by the budgetary survey.
5. Calculating the cost-of-living index as a percentage of the base period.

What Standard of Living is to be Represented?

In setting up a cost-of-living index, it is necessary first to decide what standard of living is to be represented. Price changes may have varying effects on the budgets of people in widely differing income groups—for instance, people living in the lower income level will tend to spend a larger proportion of their income on essential foods, clothing and shelter, while people in the higher income levels will generally spend more on other things. Thus a rise in the price of an essential food would be likely to have a greater proportionate importance in the budget of the low-income family than among the more well-to-do. Conceivably, a country might set up a number of indexes for different income levels, different size communities and so on, but the great expense involved has caused most countries to limit themselves to one or two indexes. If only one cost-of-living index is used, it becomes vital to have one that will be typical of the expenditures of a large proportion of all families.

In Canada, we really have two living-cost indexes:

1. "The cost-of-living index", based on the average family budget of urban wage-earners.
2. "The farm family living-cost index", a parallel index based on the average budget of rural families.

The urban wage-earner index is used as the general cost-of-living index because it reflects the basic expenditures of families who have to purchase all of their cost-of-living needs; while the farm living-cost index gives the more specialized picture of those who produce an important part of what they consume.

The cost-of-living indexes in other countries are very similar to our own in their general construction, but according to national customs and conditions, different items may be included as essential or given different weightings. For example, in India, rice bulks large in the food budget while it is of slight importance in Canada. Similarly, tea and cocoa are more heavily weighted in the United Kingdom index than in ours. The United States cost-of-living index is of very similar construction to our own.

How the Canadian Budgetary Survey was made

Urban Wage-earners

The present cost-of-living index is based on a budgetary survey conducted among families of urban wage-earners in 1938. Before commencing the survey, the Dominion Bureau of Statistics made a preliminary study of the 1931 census figures to determine what constituted an average family. A general survey was then made of 45,000 homes in twelve cities to establish over-all guides. Finally, records of living expenditures were secured from 1,439 families across the Dominion for the year from October 1, 1937 to September 30, 1938.

Each of the survey families consisted of husband and wife and from one to five children, the average family being 4.6 persons, statistically speaking. The families chosen for the survey were all self-supporting and lived in a self-contained house or apartment. There were approximately two tenant families to every home-owning family, and about one family in three operated a motor car.

Total incomes of the survey families, at the time the survey was made in 1938, ranged from \$600 to \$2,800 per annum, but were heavily concentrated between \$1,200 and \$1,600. The average family expenditure was \$1,453, of which \$1,414 was spent on items which could properly be included in the cost of living, the rest being used for such things as gifts and donations to charity.

The general distribution of living expenditures of this average family in 1938 was as follows.

TABLE 71
URBAN WAGE-EARNER FAMILY ANNUAL LIVING EXPENDITURES
(Year ending September 30, 1938)

Budget Group	Expenditure Averages (in dollars)	Percentage of Budget
Food	443.0	31.3
Shelter	269.5	19.1
Fuel and Light	90.5	6.4
Clothing	165.8	11.7
Home Furnishings	125.7	8.9
Miscellaneous, such as Health, Personal Care, Recreation, etc.	319.4	22.6
Total	1,413.9	100.0

Source: Dominion Bureau of Statistics, Ottawa.

The above percentages indicated the relative importance of the six expenditure groups in the family budget. By adjusting them to the nearest round figure (e. g. food—31 per cent; clothing—12 per cent, etc.) they serve as the basis for the weighting of these groups in determining the index. Similar information was obtained as a basis for weighting the various individual items and sub-groups of items in the six main expenditure groups outlined above.

Farm Families

A budgetary survey among farm families was also made during 1938 as the basis for the index of farm family living costs. Expenditure records were obtained from 1,692 family groups, together with information as to what commodities each farmer in the survey produced for his cost of living needs. The items in the farm family living-cost index are roughly comparable to those in the urban cost-of-living index, but there are important differences. In the first place, no allowance is made in the farm family index for the cost of housing accommodation, since it is impossible to segregate the costs of the farm home from the general farm rent or cost of upkeep. Then too, the cost of food produced on the farm is omitted. There are, in addition, some differences in the weighting of the clothing items, such as men's suits and overcoats, windbreakers, etc. As a result, the farm family living-cost index shows substantial differences from the urban index in the relative importance, or "weight" given to the various items. The following table shows the weights for the various expenditure groups in the farm family index for eastern and western Canada.

TABLE 72
FARM FAMILY LIVING-COST INDEX WEIGHTS
(per cent)

	EAST	WEST
Food	24	26
Clothing	26	26
Household Equipment and Supplies	17	15
Fuel	6	8
Health	10	8
Miscellaneous	17	17
	100	100

Source: Dominion Bureau of Statistics, Ottawa.

The reason that the farm family living-cost index has run consistently above the urban index in recent years (in August, 1948, the urban cost-of-living index stood at 157.5 and the farm living-cost index stood at 169.5) is due chiefly to omission of rents, which in the urban index have risen much less than other components such as food and clothing. The pricing and weighting methods used in compiling the farm living-cost index are very similar, with the exception that price information

is collected only three times a year, instead of monthly, and is procured from stores in centres serving the rural areas and from mail order catalogues.

Inasmuch as the urban cost-of-living index is the one with the wider general application, it is the one dealt with in detail in the following sections.

How are Representative Items for the Cost-of-Living Index Selected and Priced?

Since it would not be practicable to price from month to month all of the thousands of items which enter into the cost of living, a careful selection has been made of representative items for regular pricing. The complete list of these items will be found at the end of this chapter. In making this selection, the Dominion Bureau of Statistics is following a well established statistical principle that a relatively small sample of prices can measure accurately the price changes of a much larger group of similar items. For instance, by pricing four or five cuts of beef, it is possible to estimate the price changes for the entire carcass.

Some items in the average budget are omitted because they are of such minor importance that the expense of collecting monthly prices would not be warranted. For others, for example style merchandise such as women's hats, it is so difficult to get prices that are comparable over a period of time that their inclusion might very easily reduce the accuracy of the index.

The cost-of-living index is derived from 65,000 individual price quotations obtained each month from all across Canada. Much of this price information is obtained directly from stores and other retail outlets, and the Dominion Bureau of Statistics maintains its own field staff in the larger centres. In sending in price reports, especially on clothing and home furnishings, merchants are asked to report on any significant changes in quality, and the field staff also makes a point of checking on quality as well as price. Such quality changes are recorded as a price increase or decrease. The figures for the urban cost-of-living index are taken on the first of each month in urban centres across Canada, the information being entirely collected from primary sources such as merchants, hospitals, theatres, etc.

A brief outline of the method of pricing the six groups of family expenditures follows.

Food Items

Forty-seven items are priced, representing 75 per cent of the total cost of foods in the basic budget. The other 25 per cent are considered to have changed by the same proportion as the 75 per cent that are priced, and appropriate allowance is made for them in the weight of the food group. Prices are collected from 1,600 stores, including independent and chain grocers and butchers.

Clothing

Thirty-two items of clothing, piece goods and footwear are priced. This comparatively small list includes carefully selected items of men's and women's apparel, of fairly standard construction.

The items priced have not included children's clothing or footwear, because of the very substantial difficulties in finding sufficiently standard items to price over a period of years. The Bureau has therefore assumed that the children's items fluctuate in approximately the same proportion as men's and women's apparel made of the same basic materials. The children's items are, of course, given full representation in the weight of the clothing budget.

Department stores are the source of the clothing price information. Since they handle one-third of the Dominion's clothing trade, they are a reasonably representative source.

Fuel and Light

Coal, coke, gas and electricity are priced, the first two from fuel dealers and the last two from typical monthly bills charged by public utilities in the various cities.

Shelter

Changes in rents were until recently obtained in May and October of each year from real estate agencies in main cities across the country. They are now obtained directly from tenants by door-to-door surveys, which are made four times a year by representatives of the Dominion Bureau of Statistics. The group weight includes the cost of maintenance, interest, taxes and repairs for those who own their own homes. We understand that there are statistical difficulties involved in measuring the prices of these components of owner-occupied dwellings' costs. Present practice is to assume that these prices change the same as rents.

This problem of pricing monthly shelter costs in the house-owner sector would seem to fall into three parts. For those who continue to occupy the same house there are changes in taxes, repairs and maintenance from time to time. For those who buy newly built homes or homes previously rented there are questions of monthly payments and interest charges as well as taxes and repairs. Finally there is the statistical difficulty of attempting to combine the price series obtained for these types of owner-occupied expenditure with the series for rentals, taking into account the changing proportion of rented and owned dwellings.

Home Furnishings and Services

There are eight sub-groups: furniture, floor coverings, textile furnishings, hardware, dishes and glassware, cleaning supplies, laundry and telephone. The data regarding the first five are obtained from department stores, and the remainder are obtained from grocery stores, laundries and telephone companies. A comparatively small number of

representative items, made of the basic materials or representative of the service rendered, are priced as frequently as is necessary to determine accurately the rate and extent of the price change.

Miscellaneous Items

These include five sub-groups: health maintenance, for which household medical supplies, hospital care and doctors' and dentists' fees are priced; personal care, for which toilet articles and barbers' charges are priced; transportation, under which are included motor car operating costs, railway and street car fares; recreation, which includes such items as theatre admissions and newspaper, magazine and tobacco costs; and life insurance.

How is the Weighting System used in Calculating the Index?

A rise in the price of some things makes a great deal more difference in the family budget than the rise in some other things. For illustration consider such food items as milk, bacon and lard. In September, 1948 milk was 17.4 cents a quart, bacon was 74 cents a pound and lard was 35.7 cents a pound. The weights were 10.5 quarts of milk a week, seven-tenths of a pound of bacon, and two-tenths of a pound of lard. The cost to the family for the week would be for milk, 10.5 quarts multiplied by 17.4 cents making \$1.83, for bacon seven-tenths of a pound multiplied by 74 cents making 52 cents, for lard, two-tenths of a pound multiplied by 35.7 cents making seven cents. Thus it will be seen that a rise in the price of milk would make a great deal more difference in the family budget than a rise in the price of either bacon or lard. This is the meaning of weighting.

In the process of weighting and computing the index a beginning is made at the individual items, advanced through sub-groups, groups and finally to the completed all-inclusive cost-of-living index itself. Individual items are weighted by quantities as described above, they are then added to obtain sub-group totals. These sub-group totals are compared with the corresponding sub-group total for the base period to give a sub-group index. For instance, the sub-group index for men's clothing for September, 1948, was obtained from the following quantities:

Overcoats	.2	Balbriggan combinations	1.0 set
Topcoats	.2	Underwear, winter	1.0 set
Suits	.8	Pyjamas	1.0 pair
Sweaters	.4	Shirts, work	1.0
Overalls	1.0 pair	Shirts, broadcloth	2.5
Socks	9.0 pairs	Trousers, work	.7
Underwear, athletic	1.5 sets		

These quantities were multiplied by September 1948 prices and the total cost came to \$135.04. The base period cost was \$67.98. The sub-group index was therefore \$135.04 divided by \$67.98 which equals 1.985 or, as it is customarily written in percentage form, 198.5.

Indexes for the remaining sub-groups were as follows:

Women's Wear	167.3
Piece Goods	192.6
Footwear	160.9

The average of these sub-group indexes gave an index for the entire clothing group of 179.9. In this step the weights were expressed in percentage terms. They were obtained from the share of the men's clothing costs in total clothing costs which was actually 41 per cent. Women's wear took 36 per cent, piece goods four per cent and footwear 19 per cent.

The next step was merely a repetition of the above procedure, this time at the group level. The group indexes, their weights and the calculation were as follows.

TABLE 73
COST-OF-LIVING INDEX CALCULATIONS
(At September 1948)

	Index	Weight	Product
Food	203.9	31	6320.9
Rent	121.0	19	2299.0
Fuel and Light	128.5	6	771.0
Clothing	179.9	12	2158.8
Home furnishings and services	164.2	9	1477.8
Miscellaneous Items	124.4	23	2861.2
Total		100	15888.7

$$\text{Weighted average} = \text{Cost-of-living index} = \frac{15888.7}{100} = 158.9$$

Source: Dominion Bureau of Statistics, Ottawa.

Why Is The Index Expressed In Percentages?

The question is sometimes asked: Why is the cost-of-living index not expressed in dollars and cents instead of percentages?

The chief reason is that a percentage index applies equally well to a fairly wide range of income levels and to different size families. To find out what the average survey family of 4.6 persons having an average expenditure of \$1,414 in 1938 would have to pay for exactly the same family budget of goods and services today, is a matter of simply multiplying \$1,414 by the current index number (159.6 for October, 1948) and dividing by 100, giving \$2,256.74. But the cost of living would go up by the same percentage for larger or smaller families, with expenditures considerably above or below \$1,414 in 1938, so long as they kept to approximately the same budgetary pattern of expenditure, and each of them could multiply their pre-war expenditure by the index to find out the cost of their same budget today. Thus a family spending \$1,000 on their annual budget in 1938 would need 159.6 per cent of \$1,000 or

\$1,596, to purchase the same things in October, 1948, while a family spending \$2,000 in 1938 would need 159.6 per cent of \$2,000 or \$3,192, always supposing that these families spent about the same proportion of their money on the various items as in the average budget.

Another reason for not expressing the index in dollars is that an index so expressed might be looked upon as an approved minimum living standard, whereas the Dominion Bureau of Statistics does not endeavour in establishing a cost-of-living index to determine what is an adequate living standard, but endeavours simply to construct an accurate measure of price changes in a reasonably typical budget.

HOW THE INDEX IS ADJUSTED

The cost-of-living index is constantly the subject of questions from a public which wants to be sure that this yard-stick of price changes is a true and accurate measure under current conditions. The further away we get from the pre-war basis for the present index (the budgetary survey of 1938), the more questions are raised as to whether the cost-of-living index is sufficiently up to date. Does it take into account things the public was unable to buy in periods of shortage, or new articles which have come into widespread use since the war? Does it reflect shifts in consumption over the 10 year period since the last survey? Have changes in family expenditure patterns due to higher average wage levels any effect on the index?

The first point to make clear is that minor adjustments in the weighting or list of items included in the index are made from time to time as circumstances warrant. Three such changes were made in 1947. The allowance for sugar was raised from 3.5 to 4.8 pounds per week when rationing was removed; the ratio of houses to apartments in the rent index was changed in accordance with the sample survey of tenants made during 1947; and radios, refrigerators and washing-machines were added to the list of household items when improved supply made it possible to buy them more readily.

A second point of importance in judging the accuracy of the index is the relatively small effect which changes in income level and patterns of expenditure have on the rate of price changes as measured by the index. For instance, as incomes rise, increased expenditures for goods on which prices have risen rapidly, such as meat, would tend to be balanced by additional expenditures on some other item which had changed less than the average. It is only when the proportion of expenditure on the different groups in the budget varies significantly that any important effect would be registered in the index by a new expenditure pattern. Even where patterns vary, however, the result of different weightings of the main groups has a comparatively small effect on the over-all rate of change in the total cost-of-living index. The Dominion Bureau of Statistics has made numerous tests by re-weighting the main groups according to various United States and Canadian consumer expenditure patterns, and the results show only relatively small changes.

Finally, the Bureau makes it a practice to conduct a new budgetary survey every 10 or 12 years in order to establish a fresh basis for the index, which will reflect any long-term changes in patterns of expenditure and standards of living. Such an expenditure survey was made in the autumn of 1948, and we understand the Bureau is now preparing to revise the cost-of-living index on the basis of the new survey and supplementary data.

It is anticipated that, while this survey will undoubtedly show changes in family expenditures and standards of living over the past decade, there will be little difference shown in the over-all price trend when the articles in the new budget are priced back over the preceding years.

ARE PRESENT COST-OF-LIVING STATISTICS ADEQUATE?

We raise two questions regarding the adequacy of the present cost-of-living index, namely the treatment of shelter costs and children's clothing and footwear.

The present practice in compiling the index is to assume that rental trends reflect with reasonable accuracy changes in housing costs generally. This may have been so in normal times. Considering a period when rentals are still controlled but when building costs, repairs and the selling price of houses have risen, it is likely that the present system of reckoning shelter costs from rental information does not reflect fully the true rise of these costs.

At present no items of children's clothing and shoes are priced for the cost-of-living index. If reliable and comparable data can be obtained, this gap should be filled.

The International Labour Organization in 1947 clearly recognized that possibilities of improving upon the standard cost-of-living index should be thoroughly tested especially in view of the increased use of such information in labour-management relations and in formulating government policies.

THE COST-OF-LIVING INDEX

11

WEIGHTING SYSTEM OF THE DOMINION BUREAU OF STATISTICS

COST-OF-LIVING INDEX

(As at January 2, 1948)

	Commodity Weights (Weekly Quantities)	Sub-Group Weight	Group Weight
A. FOOD			31
1. CHAIN STORES		1	
2. INDEPENDENT STORES		2	
<i>Dairy Products</i>			
Milk	10.5 qts.		
Butter	2.8 lbs.		
Cheese, ½ lb. pkg.	.8 pkgs.		
<i>Eggs</i>	1.4 doz.		
<i>Meats and Fish</i>			
Sirloin Steak	.5 lbs.		
Round Steak	.9 "		
Rolled Rib Roast	.7 "		
Blade Roast	1.1 "		
Stewing Beef	1.0 "		
Veal	1.0 "		
Lamb	.3 "		
Pork, fresh loins	1.5 "		
Pork, fresh shoulder	1.0 "		
Bacon, rind-on	.7 "		
Fish	.8 "		
Vegetable Shortening	.8 "		
Lard	.2 "		
<i>Cereals</i>			
Bread	12.1 lbs.		
Flour	2.9 "		
Rice	.3 "		
Rolled Oats	.5 "		
Corn Flakes, 8-oz. pkg.	1.3 pkgs.		
<i>Dry Groceries</i>			
Granulated Sugar	4.2 lbs.		
Yellow Sugar	.6 "		
Tea, ½-lb. pkg	.8 pkgs.		
Coffee	.2 lbs.		
Cocoa, ½-lb. tin	.2 tins		
Salt	.5 lbs.		
<i>Vegetables</i>			
Beans	.4 lbs.		
Onions	.8 "		
Potatoes	.8 pecks		
Canned Tomatoes, 2½'s	.6 tins		
Canned Peas, 20 oz.	.6 "		
Canned Corn, 20 oz.	.3 "		
Cabbage	1.0 lbs.		
Carrots	1.5 "		
Turnips	1.0 "		

ROYAL COMMISSION ON PRICES

Commodity Weights
(Weekly Quantities)Sub-Group
Weight Group
Weight2. INDEPENDENT STORES—*continued**Fruits*

Raisins	.2 lbs.
Currants	.1 "
Prunes	.1 "
Strawberry Jam	.6 "
Marmalade	.1 "
Canned Peaches, 20 oz.	.1 tins
Corn Syrup, 2-lb. tin	.25 tins
Lemons	.1 doz.
Oranges	.7 "
Bananas	1.2 lbs.

B. RENTALS

19

C. FUEL AND LIGHT

6

Coal	42
Coke	11
Gas	14
Electricity	33

(Annual Replacement
Allowances)

D. CLOTHING

12

Men's Wear

41

Overcoats	.2
Topcoats	.2
Suits	.8
Sweaters	.4
Overalls	1.0 pair
Socks	9.0 pairs
Underwear, athletic	1.5 sets
Balbriggan combinations	1.0 set
Underwear, winter	1.0 "
Pyjamas	1.0 pair
Shirts, work	1.0
Shirts, broadcloth	2.5
Trousers, work	.7

Women's Wear

36

Top Coats, fall and winter	.3
Top Coats, Spring	.2
House Dresses	1.5
Slips, rayon	2.5
Hosiery, rayon	10.0 pairs
Hosiery, woollen mixture	3.0 "
Panties, rayon	5.0
Panties, woollen mixture	1.0
Nightgowns, cotton	.7
Nightgowns, rayon	1.6

Piece Goods

4

Cotton Dress Print	3.0 yards
Wool	.3 "
Flannel	.2 "
Celanese or Rayon Material	.7 "
Flannelette	2.0 "

	Commodity Weights (Annual Replacement Allowances)	Sub-Group Weight	Group Weight
D. CLOTHING—continued			
<i>Footwear</i>		19	
Men's Work Boots	2.0 pairs		
Men's Oxfords	.7 "		
Men's Rubbers	3.5 "		
Women's Shoes	2.0 "		
E. HOME FURNISHINGS AND SERVICES			
<i>Furniture</i>		25	
Dining Room Suite	.06		
Bedroom Suite	.06		
Kitchen Table	.08		
Kitchen Chairs	.20		
Studio Couch	.05		
Bed Springs	.05		
Mattress	.16		
Chesterfield Suite	.05		
<i>Floor Coverings</i>		7	
Axminster Rug	.04		
Congoleum Rug	.15		
Linoleum (square yards)	1.70		
<i>Furnishings</i>		11	
Sheets	1.0		
Towels, cotton terry	3.0		
Blankets, all wool	.5		
Table Oil Cloth (yards)	.4		
<i>Electrical Equipment</i>		24	
Washing Machine	.03		
Radio	.15		
Refrigerator	.02		
<i>Hardware</i>		3	
Frying Pan	.2		
Saucepan, enamel	.5		
Garbage Can, galvanized	.25		
Kitchen Broom	1.0		
Kitchen Pail	.2		
<i>Dishes and Glassware</i>		2	
Set of Dishes	.1		
Glass Tumblers	2.0		
<i>Cleaning Supplies</i>		13	
Laundry Soap	24 bars		
Soap Flakes	24 pkgs.		
Abrasive Cleansers	9 cartons		
Chloride of Lime	2 pkgs.		
<i>Laundry</i>		3	
Sheets	} Geometric Average		
Towels			
Men's Shirts			
<i>Telephones</i>		12	

	Commodity Weights	Per Cent	Sub-Group Weight	Group Weight
F. MISCELLANEOUS ITEMS				23
1. HEALTH			17	
(a) <i>Medicines</i>		23		
Aspirin Tablets, box of 12	1.3			
Epsom Salts, lb.	.7			
Boracic Acid, 2 ozs.	.3			
Tincture of Iodine, 1 oz.	.7			
Zinc Ointment, 1 oz.	.7			
Cod Liver Oil, large bottle	1.3			
(b) <i>Hospital Charges</i>		17		
Semi-Private Room	1			
Public Ward Bed	1			
(c) <i>Doctors' Fees</i>		42		
Office Consultation	} Geometric Average			
Ordinary Day Visit				
Ordinary Confinement				
(d) <i>Dentists' Fees</i>		18		
Amalgam Filling	} Geometric Average			
Porcelain Filling				
Gold Filling				
Upper and Lower Dentures				
Ordinary Extraction				
Prophylaxis				
2. PERSONAL CARE			9	
(a) <i>Personal Cleaning Supplies</i>		58		
Talcum Powder, tins	1.3			
Tooth Paste, tubes	21.7			
Tooth Brushes	8.7			
Shaving sticks	2.2			
Toilet Soap, bars	52.2			
Vaseline, jars	1.3			
Razor Blades, packages of 5	13.1			
(b) <i>Barbers' Fees</i>	Ratio	42		
Haircut (men's)	5			
Shave	2			
3. TRANSPORTATION	(Percentages)		26	
(a) <i>Motor Operating Costs</i>		67		
Gasoline	42			
Repairs and Maintenance	9			
Licenses	8			
Depreciation	35			
Tires	6			
(b) <i>Rail Fares</i>		4		
(c) <i>Street Car Fares</i>		29		
4. RECREATION			26	
(a) <i>Theatre Admission</i>		23		
(b) <i>Newspaper Costs</i>		22		
(c) <i>Magazine Costs</i>		4		
(d) <i>Tobacco Costs</i>		51		
Cigars	} Geometric Average			
Cigarettes				
Cut Tobacco				
5. LIFE INSURANCE			22	

2

THE BREAD BAKING INDUSTRY

NATURE OF THE PRODUCT

BREAD is the most commonly used of all foods. Its chief ingredient is flour. Water, shortening, sugar, salt, milk, malt and yeast as a leavening agent constitute the other components. It may be baked in large plants or in the smallest home kitchens. Because bread is of such a nature that it must be consumed within a short time after it is made, it is not a product adaptable to storage or to long transportation. Daily production must not exceed daily consumption if wastage is to be avoided. About 95 per cent of the bread produced on this continent is "white bread" which is made from wheat flour.

THE INDUSTRY

Expansion

With the advent of mechanical power and automatic processes and speedy transportation facilities, the bread industry has made rapid progress. Improvement of highways in recent years and the development of fast transport equipment have been potent factors. More and more consumers are being brought within the market scope of the bakeries. As a result, bread is being distributed over very wide areas by a few producing units situated at strategic points across the country. In 1946 the industry ranked fifteenth in gross value of production, fourth in number of employees and ninth in salaries and wages paid.

The data in the following table give a fair indication of the expansion which has taken place since 1939.

TABLE 74
EXPANSION IN THE BREAD INDUSTRY SINCE 1939

Item	1939	1946	1947 ^a	Percentage Increase	
				1946 over 1939	1947 over 1946
Establishments	3,115	2,864	—	- 8.1	—
Salaried Employees	3,459	4,846	4,700	40.1	- 3.0
Wage-Earners	19,662	25,607	26,600	30.2	3.9
(in millions of dollars)					
Salaries	3.9	8.2	8.3	110.8	2.0
Total Wages	18.5	34.8	40.0	88.6	15.0
Fuel and Electricity	2.4	4.5	5.3	88.6	17.0
Cost of Materials	34.4	70.9	78.7	106.1	11.0
Selling Value of Products	76.0	148.4	164.7	95.0	11.0

^a) 1947 figures based on the preliminary estimate.

Source: Dominion Bureau of Statistics, Ottawa.

In all aspects large increases were made during the war period, except in the number of establishments. The 1947 gains were exclusively due to the inflated price level.

Further evidence of expansion in the industry is noted when flour consumption and bread production figures are considered.

In 1946 the industry produced 1,368,713,372 pounds of bread with a selling value of \$79,263,744 as against 992,007,885 pounds with a selling value of \$51,263,436 in 1939, an increase in quantity of 38 per cent and in value of 54.6 per cent. The selling value of other bakery products produced in 1946 was \$69,093,784 as compared with \$24,777,215 in 1939, an increase of 178.8 per cent. The proportion of the selling value of bread to total selling value of all bakery products declined from 67 per cent in 1939 to 53 per cent in 1946. The total quantity of all types of flour used in 1946 amounted to 5,714,549 barrels as against 3,920,509 barrels in 1939, an increase of 45.7 per cent.¹ Most of the wheat used for the production of bread is hard wheat grown in the Prairie provinces.

Geographical Location and Sales Distribution

The following table shows the distribution of baking establishments by provinces and the percentage distribution of sales both wholesale and retail, within each province, for the year 1946.

TABLE 75

DISTRIBUTION OF BAKERIES AND BREAKDOWN OF SALES BY PROVINCES, 1946

Province	Number of Establishments	Number of Employees	Selling Value of Products (millions of dollars)	Distribution of Sales Per Cent		
				Wholesale	Retail	
					House to House	Through Bakery Stores
Prince Edward Island	13	85	.3	74.8	2.6	22.6
Nova Scotia	87	762	4.4	79.1	2.4	18.5
New Brunswick	77	715	4.0	79.3	6.5	14.2
Quebec	1,046	8,064	37.8	43.5	45.1	11.4
Ontario	1,033	14,239	66.9	40.9	32.6	26.5
Manitoba	130	1,442	7.3	62.3	21.2	16.5
Saskatchewan	91	1,009	5.4	70.0	12.1	17.9
Alberta	123	1,398	8.4	68.2	10.1	21.7
British Columbia	261	2,728	13.9	55.7	12.4	31.9
Yukon and North West Territories	3	11	.05	45.4	—	54.6
Canada	2,864	30,453	148.4	48.9	29.6	21.5

Source: Dominion Bureau of Statistics, Ottawa.

Conforming to the distribution of population the greatest part of the industry is situated in Ontario and Quebec. Together the two provinces produce 70 per cent of the value sold by the entire industry.

¹Dominion Bureau of Statistics, Ottawa.

The province of Quebec differs from the other provinces, with respect to the distribution of bakery products, in that the greater percentage of distribution is through retail house to house sales. Wholesalers play a larger part in the distribution of bread all other provinces except Ontario.

Size of Establishments

The following table, showing the grouping of bakery establishments in order of output value for 1946, indicates that the degree of concentration in the baking industry is quite substantial.

TABLE 76

BAKERY ESTABLISHMENTS GROUPED ACCORDING TO PRODUCTION VALUE, 1946

Range of Production Value	Number of Establishments	Number of Employees	Selling Value of Products (millions of dollars)	Percentage Selling Value Produced
Under \$50,000	2,457	9,838	35.7	24
\$ 50,000 — \$ 99,999	182	2,825	12.7	8.6
100,000 — 499,999	163	5,734	31.0	21
500,000 — 999,999	36	4,233	24.3	16.4
1,000,000 and over	26	7,803	44.6	30
	2,864	30,453	148.4	100

Source: Dominion Bureau of Statistics, Ottawa.

Many of the large bakeries are controlled by companies operating a number of establishments and may be termed multiple bakeries. In 1946, the sales of 93 multiple bakeries amounted to \$61,809,832 or just under 42 per cent of total selling value produced by all establishments.

Capital Investment

Since 1920, the amount of fixed capital invested in the industry increased steadily from \$18,377,517 to the all-time peak figure of \$45,620,295 in 1931. The subsequent decline to a low of \$36,698,271 in 1934 coincided with the end of the steady expansion in the number of establishments which had then reached 3,173, or almost double the figure reported for the year 1920. The next crest in the capital investment figures, \$41,311,965 in 1937, was followed by a slight decline in 1939 and levelled out at around \$42 and \$43 million during the war period. The number of establishments fluctuated between 3,100 to 3,200 during the period of 1934-1938 and from there on decreased to 2,864 by the year 1946. The rise in the number of employees proceeded evenly upwards from 13,389 in 1926 to 30,453 in 1946, the only interruption occurring in the year 1932.¹

¹Cf. Table 77.

The statistics suggest the stability of per capita demand one would expect to find in an industry manufacturing largely a staple such as bread. Small capital and only a short period of time are required to enter the baking industry.

TABLE 77
FIXED CAPITAL INVESTMENT IN THE BREAD BAKING INDUSTRY

Year	Number of Establishments	Number of Employees	Fixed Capital Investment (millions of dollars)	Selling Value of Products ^a (millions of dollars)	Ratio	
					Selling Value to Investment Dollar	Selling Value in Dollars per Employee
1920	1,769	9,940	18.4	61.9	3.4	6,228
1926	2,214	13,389	29.9	62.9	2.1	4,622
1929	2,568	17,023	38.4	77.2	2.0	4,508
1931	2,912	18,337	45.6	64.8	1.4	3,533
1934	3,173	18,562	36.7	57.3	1.5	3,080
1937	3,179	21,252	41.3	76.5	1.9	3,600
1939	3,116	23,121	40.8	76.0	2.2	3,892
1943	2,996	26,829	43.5	120.4	2.7	4,480
1946	2,864	30,453	43.5 ^b	148.4	3.2 ^c	4,870

^a Adjusted by wholesale price index of bakery products.

^b 1943 figure.

^c On basis of 1943 relationship.

Source: Dominion Bureau of Statistics, Ottawa.

The output per man in 1946 increased by a third as compared to the average of the periods 1929 and 1939. This is more remarkable when it is considered that the average number of hours worked per employee decreased between 1939 and 1945 as shown by the following table.

TABLE 78
AVERAGE NUMBER OF HOURS WORKED

Year	Wage — Earners		Average Number of Hours Per Week	
	Male	Female	Male	Female
1939	16,972	2,690	52.7	46.3
1940	17,336	3,259	52.2	46.4
1944	16,090	7,019	50.4	42.6
1945	16,868	7,426	49.9	42.2

Source: Dominion Bureau of Statistics, Ottawa.

The loss of skilled men, the higher proportion of women employed in the industry, and the heavy labour turnover decreased labour efficiency during the war period. To account for the increase in man-hour productivity one must examine the factor of production capital.

There is a 60 per cent increase in the production per dollar of fixed assets for the year 1946 over 1929. Part of this increase is due, no doubt, to improved efficiency of the capital equipment itself. The largest

advance, 45 per cent during the war period must have been due to a more intensive utilization of the equipment when replacement was almost impossible.

There would seem ample justification to conclude that the scale of production of the industry in pre-war days was below the optimum point with respect to the amount of capital invested, and that the larger output during the war brought about a better combination of factors. Operating under conditions of decreasing average costs must have been instrumental in withstanding the pressure of a rising price level against the price ceiling on bakery products.

Concentration of Financial Control

Concentration of control has been clearly established in the baking industry. The growth of large-scale plants and the concentration of financial control in the hands of a few dominant groups have been outstanding features of the industry since the end of World War I. Large milling companies secured control over groups of bakeries to provide outlets for substantial sales of flour.

The Maple Leaf Milling Company, Limited, was first, when in 1922 it acquired a controlling interest in Canada Bread Company, Limited, operating in the provinces of Ontario, Quebec and Manitoba. In 1925 The Maple Leaf Milling Company acquired control of Canadian Bakeries, Limited operating in Saskatchewan, Alberta and British Columbia. In 1929 a controlling interest in Eastern Bakeries, Limited, operating bakeries in Nova Scotia and New Brunswick and, later in the same year, acquired control of Dominion Bakeries, Limited, operating about 16 bakeries in smaller centres in Ontario.

Lake of the Woods Milling Company, Limited, Ogilvie Flour Mills Company, Limited, Purity Flour Mills, Limited (formerly Western Canada Flour Mills Company, Limited) were the other principal milling companies which secured financial control over large baking companies during the late twenties.

Independent baking groups include Geo. Weston Bread and Cakes, Limited, which operates bakeries in Ontario, and Weston's Bread and Cakes (Canada), Limited, operating in western Canada and formed in 1938 from Inter-City Western Bakeries Limited, (a former subsidiary of Lake of the Woods Milling Company, Limited) and from an Edmonton bakery acquired in 1945. A more recent entrant is Christie's Bread Limited, a subsidiary of National Biscuit Company of the United States. This organization entered the bread business in Toronto in 1939 and set up the present company in 1941. Christie's Bread Limited bought a small bakery in Welland in May, 1947, and in March, 1948, entered the baking field in Montreal. Canadian Food Products Limited, either directly or through subsidiaries, has been increasing its interests in the bread and cake baking fields. According to the Financial Post Survey of Corporate Securities, Canadian Food Products Limited has in recent years acquired control of companies operating bakeries in Toronto and in several cities in western Canada.

In the Price Spreads inquiry it was found that, in 1932, the combined output of the plants of Canada Bread was equivalent to 7.6 per cent of the total bread produced by all bakeries in Canada in that year. From data supplied to the Special Committee on Prices in 1948 it may be estimated that the combined output of all plants of Canada Bread in 1946, the latest year for which full statistics of the baking industry are now available, was probably in excess of nine per cent of the total production of all bread baking plants in the Dominion.

According to the evidence of the President of Consolidated Bakeries of Canada, Limited, before the Special Committee on Prices, Glenora Securities, a subsidiary of Ogilvie Flour Mills Company, Limited, now holds 155,504 shares of a total of 339,442 issued shares.¹ The production by Consolidated Bakeries constituted 6.9 per cent of the total production of bread in 1932 and one of its subsidiaries, Wonder Bakeries Limited, maintained approximately the same percentage of the Dominion total in 1946.²

In February, 1948, Trent Valley Baking Company Limited became a subsidiary of Consolidated Bakeries, operating in five of the smaller Ontario cities. In western Canada, Ogilvie Flour Mills Company, Limited, has financial interest in the McGavin group of baking companies.

Out of a total production of 1,368,713,372 pounds of bread in the bread and other bakery products industry in 1946, multiple bakeries produced 603,782,119 pounds or 44 per cent of the total. This may be compared with 30 per cent for mill-controlled bakeries in 1932 or 34 per cent in 1930 and 36.5 per cent in 1929. The total for 1946 does not include production for Christie's Bread Limited which, if added, would bring the proportion closer to 47 per cent.

Multiple baking companies are to be found in every Canadian province but the largest plants exist in greater Montreal where the production in 1946 was equivalent to 55.7 per cent of the bread made in that area. In Alberta, Saskatchewan and British Columbia multiple baking companies produced, in 1946, 75.8, 68 and 63 per cent respectively of bread baked by commercial bakeries in those provinces. These percentage figures show marked increases over comparable figures of former years.

Not only is the production of bread becoming concentrated in the plants of a few large baking companies, but production is being carried on to an increasing extent in large factories which, in many cases, supply not only the needs of the city in which they are located but a considerable area outside. In 1929, bakery establishments having a production of \$1,000,000 or more in that year accounted for only 12 per cent of the total value of products produced in the industry, while in 1946, as has been shown earlier, they accounted for about 30 per cent although there were only 26 establishments in this group.

¹Evidence, Special Committee on Prices, p. 826.

²Ibid., p. 800.

A substantial factor may be the increasing emphasis on the production of articles other than bread in bakery establishments. As in the case of bread, which had in early years been made largely in the individual household, the production of cakes and other sweet goods appears to be shifting from the home to the factory. This tendency was undoubtedly strengthened materially during the war by the rationing of sugar and other products used in baking, as well as by the number of women employed in industry. In 1929, more than 75 per cent of the value of products made in the bread baking industry consisted of bread alone. It is probable that the proportion for multiple bakeries was even higher. In 1946, the value of bread produced by multiple bakeries was about 60 per cent of their total value of production but in the case of other bakeries the proportion was less than 50 per cent. The independent baker in recent years has found his principal field of development in the production of pies, cakes, pastries, etc. In many cases the products made in independent establishments are sold directly to the public over the counter.

PRICING AND SELLING POLICIES

Influence of Pricing Policies of the Multiple Bakeries on Bread Prices

The concentration of the production of bread in the plants of multiple baking companies in practically all leading cities of Canada, (Quebec City and Halifax may be noted as exceptions), has resulted in the pricing policies of these principal baking companies being the determining factors in the establishment of the price of bread. In the period prior to the war it appeared that the competition of retail chain stores, operating their own bakeries, and of independent bakers would exercise considerable influence over the general price level of bread. However, these producers presently serve only a small proportion of the market. It appears that a wide price difference between the selling price of chain store brands and the retail price charged by multiple baking companies may exist for an indefinite period.¹ This cannot be attributed to any substantial differences among the lower and higher priced loaves in terms of nutritional value. The laboratory analysis made for the Special Committee on Prices showed that loaves selling for 10 cents had calory content equal to or greater than loaves selling for 13 or 14 cents.²

The multiple baking companies exert significant influence over the retail price of bread by sales made directly to householders by wagon delivery and also over sales of bread by independent retailers. The result has been the establishment of a rigid structure of bread prices applying to a large proportion of the bread sold over wide areas. The interest of most of the multiple baking companies in maintaining prices on house to house sales appears to have had the tendency of establishing the same level of prices on sales made by independent retailers. On the

¹Evidence, Special Committee on Prices, p. 374.

²Ibid., pp. 2552-2554.

other hand, certain large baking companies have concentrated on supplying bread at wholesale to independent retailers and do not engage in direct sales to householders.

The wholesale baking companies have shown the same concern with respect to the maintenance of retail prices by offering an established selling margin between wholesale cost and retail selling price. This attempt to secure the favour and patronage of the retailer leads to a bidding for the retailer's patronage in terms of enlarging the gross profit on sales of bread. At one time a margin of one cent per loaf was accepted as a normal charge to be made by the retail merchant who handled bread. Such a margin persisted in many localities up to the outbreak of war, and, of course, wholesale and retail prices of bread became subject to the price ceiling in 1941 and remained so until September, 1947.

This development is clearly illustrated by the evidence given by certain baking companies and large retailers to the Special Committee on Prices. Prior to September, 1947, General Bakeries, Limited, which does only a wholesale business in Toronto, was supplying bread at eight cents per loaf to retailers who resold the bread at 10 cents, thus receiving a margin of two cents per loaf.¹ However, retailers who purchased products to the value of \$100 or more per month, roughly 50 loaves per day in terms of bread, were only charged 7.6 cents per loaf, thus getting a margin of 2.4 cents per loaf. On September 18, 1947, the wholesale price for smaller buyers was increased to 11 cents and that of larger buyers to 10.45 cents, so that the margins with bread retailing at 13 cents were two cents and 2.55 cents per loaf respectively. On September 24, however, the wholesale prices were reduced to 10.5 cents and 9.97½ cents which resulted in margins of 2.5 cents for smaller buyers and 3.025 cents per loaf for larger buyers. In October, General Bakeries raised the level of purchases for volume buyers to a minimum of \$130 per month.² In January, 1948, wholesale price to small buyers was increased one cent per loaf and the retail price advanced by an equal amount. This left the margin for the small buyer at 2.5 cents per loaf but the wholesale price for large buyers was advanced to 10.925 cents per loaf so that the margin for this class became 3.075 cents.

The situation in Toronto may be contrasted with that in Montreal where the same retail price level prevailed for the brand bread of multiple bakeries operating in that city but where the margin which the smaller retailer and some of the larger ones secured was generally one cent or 1.5 cents per loaf up to September, 1947. General Bakeries, Limited, which operates bakeries in both Toronto and Montreal, supplied bread to small buyers in Toronto at eight cents per loaf prior to September, 1947, whereas in Montreal, it charged nine cents. It supplied Dominion Stores with its regular brand at 7.6 cents per loaf in Toronto, but charged 8.1 cents to the same company in Montreal, prior to September. In February, 1948, the price to Dominion Stores was 10.93 cents in Toronto and 11.25

¹Evidence, Special Committee on Prices, p. 464.

²Ibid., p. 605.

cents in Montreal¹ which resulted in margins of 3.07 cents in Toronto and 2.75 cents in Montreal. The wholesale price to smaller buyers was advanced by half a cent in February, while the retail price increased by one cent so that the retail margin for such buyers became 1.5 cents compared with one cent prior to September, 1947, and with 2.5 cents in Toronto.

In March, 1948, Christie's Bread Limited, entered the Montreal market and offered bread at wholesale for 12 cents per loaf for both unsliced and sliced bread.² This was half a cent more per loaf than for unsliced bread sold by the company in Toronto and the same as its regular price for sliced bread in Toronto. The retail price was intended to be 14 cents in Montreal for both types of bread so that the retailer would secure a margin of two cents per loaf compared with one or 1.5 cents which he had been getting previously on the regular brands of the multiple baking companies. This action by Christie's was reported to be followed by certain other bakers who reduced their wholesale prices for unsliced bread to 12 cents per loaf without reduction in the retail price, thus tending to establish the retail margin on bread at two cents per loaf in Montreal.³

These developments in Toronto and Montreal, are not isolated instances, but are symptomatic of the minimization of competition which guarantees the margin the retailer may secure. In the case of the regular brands the margins now being established appear to be out of proportion with the margin that would exist under competitive conditions on a fast-moving packaged food such as wrapped bread. This conclusion is supported by evidence given by Steinberg's Wholesale Groceries Limited of Montreal, on the margins secured on various grocery lines compared with bread.

TABLE 79
STEINBERG'S WHOLESALE GROCETERIAS
GROSS MARGINS AS PERCENTAGE OF SALES

	Per Cent
Butter	5.14
Fresh Milk, Quarts	5.71
Pints	10.53
Canned Soups	9.87
Jam	13.59
Canned Vegetables	13.69
Canned Fruits	13.75
Household Cleaners	14.49
Soaps	14.64
Tea and Coffee	14.88
Peanut Butter	15.82
Bakers' Brands of Bread	19.60
Fresh Fruits and Vegetables	22.46
Biscuits	23.35

Source: Evidence, Special Committee on Prices, p. 734.

¹Evidence, Special Committee on Prices, p. 592.

²Ibid., p. 993.

³Ibid., p. 786.

In contrast with the regular brands of bread on which such wide margins are made available to the retail stores, is the second quality bread (aside from the private brands produced for the chain stores). The retailer's margin is quite small on this type in comparison, and there is little or no competition for dealer patronage. This grade of bread was brought on the market to meet the competition from the chain store bakeries. The following table showing some cost and selling price data for the regular and secondary brands of Canada Bread Company as at January 1, 1948, is representative of the general relationship prevailing between first and second grade bread.

TABLE 80

CANADA BREAD COMPANY LIMITED

COMPARISON OF COSTS AND SALES RETURNS
FIRST AND SECOND QUALITY BREAD

(cents per loaf as at January 1, 1948)

	Total Cost	Sales Return
Sold House to House		
First Quality	12.46	13.00
Second Quality	11.65	11.00
Difference	.81	2.00
Sold to Stores		
First Quality	10.48	10.40
Second Quality	9.91	9.50
Difference	.57	.90
Second Quality	9.91	9.50
Special Chain Store Bread	9.87	9.00
Difference	.04	.50

Source: Evidence, Special Committee on Prices, p. 891.

The figures in the foregoing table show that the difference in baker's selling prices, between the regular and secondary brands at both retail and wholesale levels, is much greater than the difference in cost. The lower cost of the secondary bread arises principally from the relative amounts of ingredients used in each loaf and from a slight saving in the commission paid to the delivery man. In the case of special chain store bread there is even a lower distribution cost than in the cost of secondary bread sold wholesale. Savings accrue both to the baker and dealer as this loaf is handled like any ordinary grocery item, with economies on transportation, package material and clerical work.

According to evidence before the Special Committee on Prices competition forces the baker to produce second grade bread.¹ It may be significant in this regard that in the investigation of the bread baking industry in western Canada the special commissioner under the Combines Investigation Act reported arrangements being made among members of bakery associations to produce only bread of one price.² This would bring higher average returns per loaf on a smaller total volume for those bakers who formerly produced second grade bread. The result would be a smaller total profit, however, than if production of the low priced loaf had been continued. Further light will be thrown on related problems by an examination of the selling margins obtained by the stores. Choosing a customer of Canada Bread Company, we have:

TABLE 81

LOBLAW GROCETERIAS LIMITED
SELLING PRICE AND COST OF 24 OUNCE LOAF
(in cents per loaf)

	Septembre 1, 1947	Septembre 24, 1947	January 1, 1948	January 27, 1948
Cottage Brand				
Selling Price	7.50	10.00	10.00	10.00
Cost Price	5.95	8.45	9.00	9.00
Gross Margin before deducting Warehousing or Selling Costs	1.55	1.55	1.00	1.00
Per Cent of Selling Price	20.0			10.0
Other Loaves Canada Bread Co.				
Selling Price	10.00	13.00	13.00	14.00
Cost Price	7.45	9.85	9.36 ^a	10.35
Gross Margin before deducting Warehousing or Selling Costs	2.55	3.15	3.64	3.65
Per Cent of Selling Price	25.5			26.0

^a Deviation from "Sales Return" of 10.40 cents and 9.50 cents for first and second grade bread respectively, as in Table 74, is largely due to an additional discount given. (Standard: an extra five per cent for customers buying more than \$120-\$140 worth of bread a month.)

Source: Evidence, Special Committee on Prices, p. 357.

The selling price of Loblaw's special brand loaf was not raised when, toward the end of January, all other bread prices were advanced. This seems to have been due to the fact that the Great A. & P. Tea Company did not increase the price of bread made in its own bakeries. Apparently other large chain stores in Ontario and Quebec are prepared to make their own bread if the bakeries cannot or will not deliver at a price which will permit them to sell a special brand on a competitive basis

¹Evidence, Special Committee on Prices, p. 874.

²Bread-baking Industry in Western Canada, Report of H. Carl Goldenberg, Ottawa, November 3, 1948, pp. 30, 74.

with A. & P.'s own brand. The A. & P. Company, the only chain store appearing before the Special Committee on Prices which operates its own bakeries, claimed that it can produce a nine cent loaf without loss.¹ It is an open question whether chain stores generally could produce more efficiently than the bakeries, (although the fact that production would be concentrated on fewer lines would undoubtedly be a factor of substantial importance) or whether the baking industry assumes part of the cost of a product which chain stores without bakeries are prepared to sell on a narrow or no margin as long as a competitive product is being offered on the market.

While margins for the Cottage brand were decreasing as compared to that for the regular brand from September, 1947, to January, 1948, the over-all percentage margin remained approximately the same. The margin for regular bread increased by 1.1 cents, however. One would conclude that the chain stores are either taking a loss in the one or are receiving abnormal profits for the other. As other lines of groceries are handled on as low or lower margins than that taken on the Cottage brand of bread there would appear no reason to conclude that the former is the case. Retail stores, generally, are being given increased margins because their suppliers do not wish to have competition between the price of bread sold by stores and that sold house to house. Also various suppliers offer greater attractions in the form of larger margins in order to get retailers to feature their brands.

The different loaves of bread sold do not constitute a homogeneous commodity in the consumer's mind, although differences in nutritive value among the various brands and grades of bread in any market are relatively unimportant. Product differentiation rests on the principle of distinguishing the brand. This permits a new entrant to secure a share of the existing market if he can create a demand on the part of consumers for his particular brand and encourage dealers to feature it. Inevitably the price is higher and the scale of production smaller than is the case under more competitive conditions. To increase the demand for its product a bakery would have two choices. It would either lower its price, in which case it would have to meet the competition of its rivals who would presumably immediately follow suit, or it would increase its selling effort through advertising, etc. It is apparent that efforts to increase the demand by greater expenditures on such things as quality, service, and sales promotion have increased in importance in this industry.

Uniformity of prices in a market may indicate either competition or monopoly. One result which would be expected in the industry is the reduction of profits to the competitive level as long as there is no bar to entry. In this industry the competitive element appears to come largely from the large-scale merchandisers, particularly chain stores. This assumes two main forms, the competition among bakeries for store and institutional business and competition between stores and bakeries.

¹Evidence, Special Committee on Prices, p. 699.

In the competition for store business, the evidence before the Special Committee on Prices indicates the existence of a rather unstable situation. Under-selling, taking the form of greater rebates, is much more noticeable than in the house to house market, and a degree of uncertainty is present as to whether a competitor will retaliate. The fewer sellers are restricted to manufacturers of the better-known brands (except where the retailer sells under his own brand), so that the gain of one will be mainly at the expense of another. The competitor's reaction is, therefore, one of the important factors on which price policy will be based. Retaliation need not be immediate, however, as the product is sufficiently differentiated, thus offering the possibility of increasing his share to the one who first offers a larger discount or lower wholesale price. The gains made by the retailer are apparently not passed on to the consumer, at least not in the form of lower bread prices.

With regard to special brands of bread, competition by chain store bakeries is very effective in bringing a low priced loaf to the consumer's market. If this kind of bread were used by the stores as a loss leader the consequences would be serious for the bakery business, one of whose principal products would be affected. As long, however, as the lowness of price is secured by savings in manufacturing or distributive costs, the competition by the chain store bakeries would act as a real check on prices of bread sold in other ways. Such restraining influence is confined to certain areas and is probably limited even in the localities in which chain stores are operated.

In the readjustment of prices after decontrol of bread prices in September, 1947, the price of the bakers' second quality loaf tended to follow the price of first quality brands rather than keep in line with the prices at which the chain stores' special brand was sold. The price differential in favour of the chain stores' special brand was one cent per loaf at first and increased to two cents when chain stores did not advance their prices in January, 1948, when other brands were increased a further one cent in most of the larger cities in eastern Canada. While the pressure to minimize this differential seems to be strong, the bakers secure some relief as long as there is no substantial diversion of purchases from the higher priced first quality loaf.

Except for the influence which the low priced loaf has in keeping down the general level of bread prices it is difficult to establish how much actual saving in dollar amount accrues to the public from this kind of competition. Because the market for first quality brands is the larger one and because the price for the second quality loaf appears definitely linked to that of the first, these price rigidities may more than offset the advantage derived from the existence of a low priced, low profit loaf. If, however, retailers generally were more inclined and had greater freedom to compete in the sale of bread, the availability of lower priced bread might have a much more significant effect.

FACTORS IN PRICE CHANGES SINCE 1939

Increased Consumption

In the table below are given some data with respect to the consumption of bread in Canada from the year 1929 to and including 1946. During the depression years the per capita consumption of bread dropped from the 1929 record level of 93.3 pounds to 88.3 pounds in 1939. Not until 1941 was the pre-depression level regained. In the entire period between 1939 and 1946, the per capita consumption increased by 27 per cent with a rough 22 per cent of the increase taking place up to 1943. From then on consumption increased at a declining rate.

TABLE 82
CONSUMPTION OF "BAKERS'" BREAD IN CANADA

Year	Quantity of Bread ^a (millions of pounds)	Value of Bread (millions of dollars)	Per Capita Consumption ^b
1929	935.8	59.6	93.3
1939	999.4	51.7	88.3
1940	1,015.9	54.0	88.9
1941	1,068.4	58.3	93.6
1942 ^c	1,153.8	63.3	100.7
1943 ^c	1,244.2	68.9	108.0
1944 ^c	1,249.1	70.3	107.8
1945 ^c	1,291.9	73.8	110.4
1946	1,375.3	79.6	112.1

a) Includes bread made in the Biscuit and Confectionery Industry.

b) Based on the population figures given in the bulletin "Population of Canada, 1867-1946".

c) Armed Forces overseas omitted.

Source: Dominion Bureau of Statistics, Ottawa.

Though the price of bread did not increase between 1941 and 1946, at a time when the food component index of the cost-of-living series rose by 24.3 points, the fact that personal income increased from \$5,873 millions to \$9,670 millions during the same period, had probably more to do with the increase in the consumption of bread than any change in the relative prices of food items. A decline in the proportion of bread baked in the home, and an increase in demand from lower income groups should account in the main for the shift in consumption since 1939.

It is difficult to assess the changes in demand; following decontrol and the subsequent increases in the price of bread, however, a certain trend is discernible. While the demand for the bakers' first quality bread seems to have kept fairly steady, the second quality loaf apparently loses in sales volume in favour of the low priced chain store special brand of bread.

Wartime and Post-War Control of Bread Baking Industry

During World War II the production and sale of bread and other bakery products were closely regulated by the Wartime Prices and Trade Board. The first restrictions were instituted in August 1941, and pertained to the slicing and wrapping of bread. The sale of sliced bread was banned entirely and wrapping was limited to one wrapper per loaf of a specified type of paper of one color. All markings on the wrapper

were required to be of one colour and were not to cover more than 25 per cent of the surface. Maximum prices of bread were established under the price ceiling regulations which became effective in December, 1941.

Early in 1942 restrictions affecting the production and delivery of all bakery products were applied. Production processes, such as docking, cross-panning, twisting and cutting of dough, which added a measure of differentiation to loaves, were prohibited. A limitation was placed on the varieties of bread and rolls that could be made in any one day. Customers were limited to one delivery a day, with Sunday and special deliveries discontinued, except to such customers as hospitals, railways, steamships and the Department of National Defence. Unwrapped loaves were required to bear a label showing the weight, brand and retail price, and the name and address of the bakery. The return, by anyone, of bread or any other bakery products which had been delivered in a sound and edible condition by a manufacturer or distributor, was prohibited.

The ceiling prices applied in 1941 remained in effect, along with the above restrictions generally, until the removal of price controls on September 15, 1947. Some exceptions were the price adjustments allowed small bakers in Quebec and eastern Ontario in 1946 and a 10 per cent increase in the prices of cakes and sweet goods authorized February 1, 1947.

Extent of Rise in Bread Prices since 1939

The following table shows the price of bread in cents per pound, in certain principal cities and the average for the Dominion, at various periods extending from 1939 to November, 1948. It thus embraces the time immediately prior to the war and the imposition of price ceilings in December, 1941, the period of price control, including the suspension of price ceilings on bread in September, 1947, and their re-imposition in August, 1948.

TABLE 83

RETAIL BREAD PRICES AT SPECIFIED DATES IN SELECTED CITIES

(cents per pound—plain white wrapped loaves)

	1939	1941 Oct.	1945 Dec.	1947		1948		
				Sept.	Oct.	Feb.	July	Nov.
Dominion Average	6.2	6.7	6.7	6.8	9.1	9.4	9.5	9.5
Halifax	5.7	8.0	8.0	8.0	9.6	9.6	9.6	9.6
Charlottetown	6.7	7.3	7.3	7.3	9.3	9.3	9.3	9.3
St. John	6.7	7.3	7.3	7.3	9.3	9.3	10.0	10.0
Montreal	6.7	6.7	6.7	6.7	8.7	9.3	9.3	9.3
Toronto	6.7	6.7	6.7	6.7	8.7	9.3	9.3	9.3
Winnipeg	8.0	8.0	8.0	8.0	10.0	10.0	10.0	10.0
Regina	7.2	7.2	7.2	7.2	9.6	9.6	9.6	9.6
Calgary	7.2	8.0	8.0	8.0	10.4	10.4	10.4	10.4
Vancouver	9.6	9.6	9.6	9.6	11.7	11.7	11.7	11.7

Source: The above prices, with the exception of the Dominion averages, are based on the average wagon prices of the large bakeries for a single loaf as reported to the Dominion Bureau of Statistics, Ottawa.

The Dominion average retail price of 6.2 cents per pound in 1939 increased by 0.5 cents prior to the establishment of price ceilings, an increase reflecting advances in certain localities, such as Halifax, where prices had been depressed in a period of severe price competition, and then remained stabilized during the war period and until the suspension of the price ceiling in September, 1947. This extraordinary stability in price was a deliberate part of wartime price control policy. It was achieved by the subsidization of flour in order to maintain the relatively low price which had prevailed during the basic period in 1941. The price of wheat, and consequently of flour, which had advanced during the early period of the war from the extremely low level reached in mid-1939, declined during 1941 so that the maximum price of flour became fixed at a level substantially below the 1935-1939 average. A report of the Wartime Prices and Trade Board contained the following comment on the program:

"Consumer prices of flour and bread continued under individual basic period ceilings. The price of wheat to the farmer has been raised from time to time and during 1944, No. 1 Northern was accepted by the Wheat Board at \$1.25 per bushel. This is a very substantial increase in the price of wheat since the basic period, and to enable the milling companies to continue to sell flour at their basic period ceilings the mills receive from the Canadian Wheat Board a subsidy on their domestic production equal to the difference between the Wheat Board's selling price and the average price paid for wheat in the basic period,¹ subject, however to the formula for the limitation of subsidies in relation to excess profits".²

The maintenance of price ceilings on bread ingredients and the economies resulting from the regulations affecting production and deliveries were referred to by the Executive Secretary of the National Council of the Baking Industry as factors tending to offset increases in bakers' costs. More important, in his opinion, in enabling bread prices to be kept stable, were the greatly increased sales of bakery products which distributed overhead, selling and administrative costs over a large number of units.

Reinstatement of Subsidy on Wheat and of Price Ceilings on Bread

The cost of wheat to millers for domestic use remained unchanged following the increase resulting from the removal of the subsidy in September, 1947. Selling prices of flour declined for a time from the levels established immediately after the suspension of the price ceiling. However, the domestic selling price of wheat was related to the price under the United Kingdom contract which advanced from \$1.55 per bushel to \$2.00 on August 1, 1948. In order to prevent any increase in the cost of wheat to millers which would lead to an increase in the domestic selling price of flour and thus, in turn, to a further advance in the price of bread, the government announced on July 31 that a subsidy

¹About 77½ cents.

²Annual Report, Wartime Prices and Trade Board, 1944.

of 45 cents per bushel would be paid on wheat processed for human consumption in Canada.

As there were indications that in spite of this action, prices of bread, and also of flour, might be increased by sellers in certain markets, the Wartime Prices and Trade Board, in orders effective August 19, 1948,¹ reimposed price ceilings on bread and flour at the levels prevailing on July 31. The Board made provision in September, 1948, whereby firms which had not increased prices since November 1, 1947, and which could demonstrate "financial need" could apply for authorization for an increase in selling prices not exceeding one cent per loaf.

Increased Costs in Post-War Period

No comprehensive figures on changes in costs of bakery establishments are available for the war period. Data for certain large baking companies in central Canada were presented to the Special Committee on Prices and show the changes reported for these bakeries in the period preceding and following the suspension of price ceilings.²

Flour

A system of subsidy payments was established to maintain the cost of wheat to millers at a level appropriate to the basic period prices of flour. These arrangements were made in 1942 and as the domestic selling price of wheat was advanced from time to time the difference between the two levels of prices widened considerably as shown in Table 84.

TABLE 84
PRICE OF No. 1 NORTHERN MANITOBA WHEAT
(cents per bushel—in store Fort William)

		Monthly Average Domestic Cash Price	Price to Millers
August	1939	54.9	54.9
September	1939	73.9	73.9
February	1940	83.8	83.8
August	1940	72.2	72.2
February	1941	75.2	75.2
August	1941	73.0	73.0
October	1941	73.7	73.7
February	1942	78.0	78.0
August	1942	88.9	77.4 ^a
February	1943	90.5	77.4
August	1943	111.9	77.4
November	1943	125.0 ^b	77.4
August	1944	125.0	77.4
August	1945	125.0	77.4
August	1946	125.0	77.4
March	1947	155.0 ^c	77.4
August	1947	158.5 ^d	77.4
September	1947	(subsidy withdrawn September 14)	
October	1947	158.5	158.5
August	1948	205.0 ^e	160.0 ^f
September	1948	205.0	158.5 ^f

a) "Appropriate price" of 77½ cents fixed by W.P.T.B. for subsidy purposes.

b) Future wheat trading discontinued on September 27, 1943, and price of wheat for domestic purposes set at \$1.25 per bushel.

c) Domestic price of wheat increased to \$1.55 per bushel February 17, 1947.

d) Includes carrying charge of 3½ cents per bushel.

e) Domestic price of wheat increased to \$2.00 plus carrying charge of five cents per bushel.

f) Price (\$1.55 and five cents carrying charges) fixed for subsidy purposes, adjusted at September 1, 1948, to (\$1.55 plus 3½ cents carrying charges).

Source: Dominion Bureau of Statistics, Ottawa.

¹Cf Chapter 3, Vol. II., Price Controls and Rationing.

²Evidence, Special Committee on Prices, p. 357.

The average cash price of wheat for August, 1938, was 54.9 cents. With the outbreak of war it moved up to 73.9 cents and varied upward and downward from this level during the early period of the war, averaging 73.7 cents for October, 1941, and 78.0 cents for February, 1942. On August 1, 1942, the fixed initial price of wheat was set at 90 cents and the subsidy arrangements, previously mentioned, came into operation. On September 27, 1943, trading in wheat futures was discontinued on the Winnipeg Grain Exchange and the domestic selling price of wheat was established at \$1.25 per bushel. As shown in the above table, this price was increased in February, 1947, and again in August, 1948.

The removal of the subsidy paid on flour, on September 15, 1947, increased the cost of wheat purchased by millers by approximately 81 cents per bushel, or \$3.65 for 4½ bushels.¹ However, as the price of millfeeds, derived in the manufacture of flour, increased by \$10.00 per ton or by approximately 35 cents for the same quantity of wheat, the net increased cost to the millers would be \$3.65 less 35 cents or \$3.30. The general advance in the price of flour on September 15, 1947, was \$4.05, the additional 75 cents over the increased cost of wheat was attributed to accumulated costs of labour, bags and other material.

In subsequent months, further increases in the price of millfeeds and competition among millers led to some reductions in the price of flour from the levels established on September 15. Information on list prices furnished to the Dominion Bureau of Statistics showed reductions averaging about 35 cents per barrel by February, 1948, while some baking companies reported larger reductions in the cost of flour in the same period.

As a barrel of flour produces about 280 pounds of bread or 186 24 oz. loaves, the increase in the price of flour of \$4.05 per barrel would mean an increase, on this basis, of about 2.2 cents per loaf. Information submitted to the Special Committee on Prices by baking companies, which would be affected by flour inventories, showed increases in the cost of flour per loaf in September at less than this amount. Figures submitted for operations in February, 1948, following the reductions in flour prices noted above, put the increase in flour cost per 24 oz. loaf at over one and a half cents over the cost at September 1, 1947.² The retail price of the 24 oz. primary loaf was generally raised in Quebec and Ontario by three cents immediately following the advance in flour prices. An additional advance over the increased cost of flour was considered necessary by bakers because of higher cost of labour and other materials for which an increase of one cent a loaf had been requested in representations to the Wartime Prices and Trade Board before the price ceiling was lifted.

Normally, the inventory of flour at a bakery would represent two to three months' supply in order to allow it to go through an aging process. On September 15, 1947, due to regulated distribution, the inventories seem to have been much lower. Nevertheless the almost immediate increase in the price of bread following the announcement of higher flour

¹Four and a half bushels of wheat equals one barrel of flour weighing 196 pounds.

²Evidence, Special Committee on Prices, p. 895.

prices meant that some profit was made on the flour inventory. The successive decreases in the price of flour in the following months also led to some temporary easing of the cost situation with respect to this item. However, as already mentioned, bakers in a number of centres in Ontario and in Montreal increased their retail prices by an additional cent early in 1948, making the total increase following decontrol four cents per loaf. It was represented that the increase of three cents made in September had not been sufficient to cover increases in costs. During the spring of 1948 and up to the time that price ceilings on flour were reimposed¹ there was an apparent stiffening in flour prices and quotations for second patent bakers flour in this period recovered about half the amount of the reduction made earlier in the year.

Most of the bakeries represented at the hearings of the Special Committee on Prices were mill-controlled or affiliated with milling companies. They seem to derive no cost advantage in their purchases of flour but, as the Royal Commission on Price Spreads pointed out in 1935, "the existence of these inter-relationships between mills and bakeries results in the removal from the competitive flour market of a substantial demand for flour". Another effect has been to add to the financial resources of the multiple bakeries and thus to make the concentration in the industry even greater.

Other Ingredients

In the following table the total cost of all ingredients used in the bread baking industry in Canada in 1939 and 1946, is shown.

TABLE 85
MATERIALS USED BY THE BREAD AND OTHER BAKERY PRODUCTS INDUSTRY
IN CANADA 1939 AND 1946

	Unit	1939		1946	
		Quantity (thousands)	Cost Value at Plant (thousands of dollars)	Quantity (thousands)	Cost Value at Plant (thousands of dollars)
Fruits	lb.	13,301.5	1,342.9		5,141.3
Eggs, in shell	doz.	3,144.5	704.1	4,668.2	1,618.7
Eggs, frozen	lb.	4,387.1	829.5	12,201.9	3,309.5
Lard	lb.	7,426.0	647.5	14,936.8	2,495.5
Malt Extracts and Syrups	lb.	1,302.8	126.7	12,226.8	1,184.7
Milk, powdered	lb.	9,389.8	880.6	16,578.9	2,171.1
Shortening	lb.	23,271.8	2,234.4	35,792.3	6,191.3
Sugar	lb.	45,260.4	2,578.7	49,627.9	3,746.1
Yeast	lb.	9,926.0	1,935.9	16,938.8	3,190.4
Packing Materials			3,196.2		7,678.5
Sub-total ^a			14,476.5		36,727.1
All Other Ingredients and Supplies			3,742.8		9,341.4
All Ingredients Exclusive of Flour			18,219.3		46,068.5
Flour (hard and soft wheat)	bbl.	3,920.5	16,172.1	5,703.5	24,817.5
Total Cost of Material Used			34,391.4		70,886.0

^a All ingredients which had a "Cost Value at Plant" of over one million dollars in 1946.

Source: Dominion Bureau of Statistics, Ottawa.

¹August, 1948.

The dollar amount spent on all materials used in 1946 had increased by 106 per cent over 1939, representing 47.8 per cent of the selling value of the products as compared with the 1939 figures of 45.2 per cent. The proportion of flour as a percentage of the total cost of materials used decreased from 47 per cent in 1939 to 35 per cent in 1946. The percentage increase in unit cost of other ingredients over 1939 ran from nil for yeast, malt extract and syrup to 90 per cent for lard.

The cost of all ingredients in a 24 oz. loaf of Wonder Bread manufactured by Consolidated Bakeries of Canada, Limited, shows that the increase over the two year period from January, 1946, to January, 1948, in cost materials was 2.51 cents while the increase in the total cost of the loaf was 4.14 cents.¹

The figures for other companies express a general relationship between a first grade and a second grade bread, because of the use of a greater proportion of more costly ingredients such as sugar, milk and shortening in the better grade.

During the war, Prices Board regulations reduced the number of varieties of bread which a baker could make to the minimum. Resumption of the pre-war pattern will inevitably decrease productive efficiency and be translated into higher costs.

Another cause of increasing costs of general significance in the post-war period is the enrichment of bread formulas undertaken by the bakeries. The tight supply situation with regard to ingredients and the pressure of the price ceiling against uncontrollable cost increases, had, during the war years, halted the competitive trend in that direction. Evidence cited before the Special Committee on Prices puts the added cost per loaf at anywhere up to 0.8 cents.

Wages and Production Costs

Wage rates in the bread baking industry increased by more than 70 per cent since pre-war days, as is shown in the following table.

TABLE 86

INDEX NUMBERS OF WAGE RATES FOR THE BREAD BAKING INDUSTRY, 1939-1947

Year	Index Numbers
1939	100.0
1940	102.9
1941	115.5
1942	123.9
1943	128.9
1944	134.3
1945	139.0
1946	152.6
1947	174.2

Source: Department of Labour, Ottawa.

¹Evidence, Special Committee on Prices, p. 802.

While the total increase is more or less evenly distributed over the control period, the sharpest increases took place in the years following the end of the war. Average weekly wages for men rose from \$19.32 in 1939 to \$29.65 in 1945, while wages for females increased from \$10.51 to \$14.11 in the same period. No earnings figures are available for 1946 but the 13.6 increase in the wage rate index in 1946, and the further increase of 21.6 in 1947, indicate further substantial advances. This may be due partially to a shift in the sex proportion of workers in favour of the male wage earner. Total employment increased by about 1,300 to over 25,000 workers since 1945, while the number of women workers decreased by about 500.

During wartime little or no new machinery was available. The cost of repair and maintenance increased greatly. The situation in this regard should become progressively better as replacement takes place. In the first two post-war years new capital investment seems to have been slow. Delivery equipment was given priority and made up the major item of outlay.

Slicing of bread which was prohibited during the war is being introduced again. The additional cost is estimated at around $\frac{1}{4}$ cent per loaf of bread which is being sold to the consumer at one cent in excess of the price prevailing after January 1948, for unsliced bread. Contrasting the slicing with the wrapping shows how an innovation, allowing extra profits, is generally taken up by the trade. With a more or less fixed market, the added costs are quickly absorbed into normal costs, permanently raising the price. After realignment of the industry's cost structure in the face of changing conditions, only normal profits remain, giving rise to another innovation and higher prices. With the cost of wrapping amounting to about $\frac{1}{5}$ of a cent per loaf, wrapped bread brought a net return of roughly $\frac{4}{5}$ of a cent. Today the practice of wrapping bread is generally accepted, and the industry spent almost three million dollars on that account alone in 1946, while no allowance other than cost (plus normal profits) is made in the price of the product.

Overhead

During the war period sales expanded rapidly and overhead cost was distributed over a larger number of units, thus partly offsetting the effect of rising costs. No such spectacular production increases can be expected for the future. While long needed replacement of machinery and equipment will increase the productive efficiency, the higher replacement cost of equipment will result in higher charges for depreciation and will be increasingly reflected in the operating statements.

Distribution and Selling Expenses

While the operation and maintenance expenses of delivery vehicles are important items in distribution costs, the expenses centering around the delivery-man appear to be of major significance. A fairly accurate description of the sales organization in one of the large baking companies would run somewhat as follows: At the head of the bakery sales division

is a sales manager; every group of from 11 to 13 routes has a sales supervisor and there is a spare salesman for every 12 or 13 routes. Both supervisors and deliverymen usually receive a small basic wage plus a commission on the sales made. The rate is generally around seven per cent on wholesale routes (sales to retail stores) and 15 per cent on retail routes (house to house). The top heavy structure of a bakery concern in favour of the sales' end of the business is underlined by some statistics supplied by the Canada Bread Company. Out of a total of 2,700 employees, 900 or 33 1/3 per cent belong to the sales division. In the seven months ended January 31, 1948, the percentage of wages and salaries paid in relation to the sales value of products sold by this company was as follows.

TABLE 87

PERCENTAGE OF WAGES AND SALARIES IN RELATION
TO SALES VALUE OF PRODUCT

	Per Cent
Delivery Wages	18.1
Bakery Wages	13.1
Branch Office Salaries	2.1
Head Office Salaries	.6
	33.9

Source: Evidence, Special Committee on Prices, p. 896.

An example of the large portion of distribution costs that is taken up by delivery expenses for a standard loaf of bread of Consolidated Bakeries for the month of January in 1946, 1947 and 1948 is provided in the following table.

TABLE 88

CONSOLIDATED BAKERIES OF CANADA, LTD.
DISTRIBUTION COSTS IN CENTS PER 24 OZ. LOAF OF WONDER BREAD
JANUARY, 1946 — JANUARY, 1948

	January 1946	January 1947	January 1948
Sales Wages	1.79	1.83	2.48
Delivery Expenses	1.28	1.26	1.65

Source: Evidence, Special Committee on Prices, p. 802.

The large increase in sales wages of .65 cents per loaf between January, 1947, and January, 1948, during which time price control ended, highlights the fact that the cost of bread is automatically increased as soon as the price goes up. The salesmen's commissions which are on a

value basis will inevitably increase in proportion to the price increase. The total cost per loaf of Wonder Bread, exclusive of sales wages, increased by 3.31 cents between 1947 and 1948. Allowing two cents per loaf for the increased cost of flour it is apparent that the increase of .65 cents per loaf in sales wages in the same period is equal to about one-half of the increase of all other elements than flour in the cost structure.

None of the baking companies at the hearings of the Special Committee on Prices appeared to be inclined to make any changes which would interfere with the system of basing salesmen's commissions on the value of products distributed. In fact, with the quest for customers becoming a matter of concern again in the post-war period the expenditures on sales wages may well rise in order to attract the best sales force to engage in aggressive promotion of brands.

SUMMARY AND CONCLUSION

The primary cause of the sharp increase in the price of bread after the lifting of price ceilings in the fall of 1947, was the delayed adjustment in basic costs in the industry. Such adjustment, and with it the change in selling prices, had been held in abeyance through the maintenance of rigid price ceilings which the payment of subsidies had made possible. In the case of many other food products, adjustments in maximum prices were made from time to time during the period of control, but in the case of bread the level of prices prevailing in the pre-war period was generally maintained up to the time that price ceilings were suspended. The price of bread was established in 1939 when the price of wheat and consequently of flour were at extremely low levels. In the case of wheat the price was less than one-third of the price now applying on sales in Canada. Adjustments were necessary to provide for changes during the period of control and subsequently, in the costs of materials, supplies, labour and capital equipment. Public comment arose not so much over the fact that price increases were made as it did over the manner in which they were made and the differences which were made evident between various sections of the trade and in different regions of the country. These features were regarded as related to the organization of the industry and to practices followed in the trade.

The emergency controls over prices and production tended to hold in check the more extreme forms of competitive distribution which were developing in the pre-war period but the shortages of supplies and of man-power may have contributed to the continued rise in the importance of large-scale units in the industry. In many parts of the country the production of bread became concentrated in a few large bakeries, many of them branches of mill-controlled or affiliated baking companies. In western Canada, the report of a recent investigation under the Combines Investigation Act showed that the large baking companies had understandings as to common price policies and trade practices. In other parts of the country where multiple bakeries operate it is evident that with respect to the retail price the companies adopted similar price structures.

The maintenance of a uniform price structure for bread, particularly for what is termed the "primary" or "first quality" loaf has become a matter of consistent policy on the part of the large bakery organizations. Seldom do new entrants to the industry attempt to secure consumer preference by offering an equal or improved product at a lower price but rather rely on brand or feature advertising and on the granting of more attractive terms or facilities to the distributor. Some variations do, of course, occur. Christie's Bread Limited when it entered the Toronto market in 1939, as a wholesale baker, was satisfied to have the retailers handling its bread conform to the level of retail prices already established. When the same company entered the Montreal market in 1948, it accepted the prevailing retail price for wrapped unsliced bread but offered sliced and unsliced bread at the same wholesale price, giving the retailer a margin of one-half a cent more than he had been obtaining on most other brands of bread, and allowing him to sell both types of bread at the same price. This showed that the price differential which the company maintained in Toronto in common with other baking companies there could be disregarded in a new territory when there was a possibility that in so doing a greater volume of business could be secured. The purchaser of unsliced bread in Montreal could secure no price advantage in buying the Christie loaf although the retailer was given a wider margin than he had been enjoying on competitors' lines.

The development of aggressive sales policies in the bread baking industry had been critically examined in inquiries made in the early 1930's from one of which the following excerpt is taken:

"Most of this expensive sales effort is designed not so much to increase the consumption of bread as to persuade customers of rival concerns to 'change bakers'. This can hardly be called a social benefit. The big bakery can not be held solely responsible for the system. There is little doubt that the demand of the public, or of some portions of the public, for something new to eat is one of the reasons back of the development of such sales methods. This desire for change is capitalized by the shrewd sales manager: new varieties of bread are advertised under 'catchy' names as being made by the latest scientific processes and as containing the last word in nutritive value; new shapes are turned out, bread ready sliced is introduced and special delivery services added, all in an effort to retain old customers and gain new ones from competitors."¹

The concentration of bread production in large baking companies and the absence of active price competition among them have tended to make distribution more costly. Additional costs have resulted in increases in the established selling price.

¹Investigation into an Alleged Combine in the Bread Baking Industry in Canada, Report of Registrar, Ottawa, 1931, p. 40.

In the pre-war period it had been expected that competition from chain stores operating their own bakeries and from other retailers not concerned with house to house bread delivery would compensate for the disappearance of price competition among the large baking organizations. The extent to which brand differentiation has existed in the industry has, however, greatly reduced the effect of the competition from chain stores. The increasing insistence on the maintenance of resale prices by retailers at wagon prices has reduced price competition.

Whether or not in a period of less buoyant consumer incomes the competition of chain stores in the sale of bread would have a more direct effect on the general level of bread prices is a matter of speculation. It is evident that many of the large merchandising organizations are prepared to accept the substantial margins on bakers' bread which the observance of resale prices provides.¹ The influence of those chains which operate their own bakeries is the most significant factor remaining. This difference amounts in many instances to three or four cents per loaf which the public seems prepared to pay for bread which possesses practically the same nutritive values.

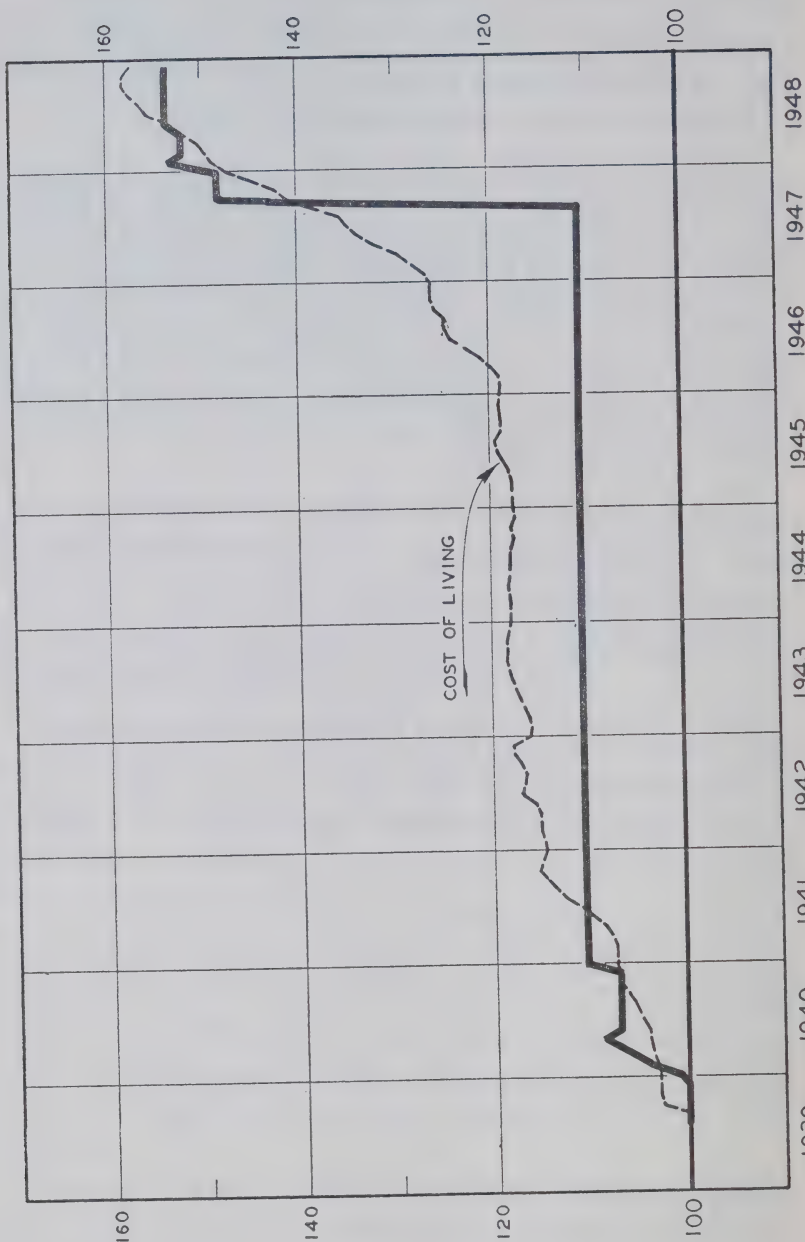
The forms of competition which have developed among the large baking companies and merchandising organizations have had serious effects upon independent bakers² who have not the resources to engage in the costly distribution methods of their larger rivals nor the volume of business which would enable them to compete with chain stores. The multiple baking companies distributing their products in many markets may engage in aggressive promotional activity to secure consumer patronage for their brands in a particular locality. The local baker with only that market to serve can not engage in the same tactics and hope to survive. In some cases, it appears, the only course open to him has been either to discontinue his business or sell out to the multiple company.

¹Evidence, Special Committee on Prices, p. 734.

²Ibid., pp. 664-6.

CHART X BREAD RETAIL PRICE INDEX

(AUGUST 1939 = 100)



Source: Dominion Bureau of Statistics, Ottawa.

3

THE BUTTER INDUSTRY

THE general principle followed by the government in removing the price and rationing controls imposed during the war was to take these controls off at such time as demand and supply appeared to be approximately equal. If this latter condition prevailed price was not likely to increase significantly. On May 1, 1947, at a time of year when production is seasonally high, the subsidy payment to farmers producing butterfat was removed. At the same time the ceiling price of butter was increased, by 10 cents per lb., an amount which, if the market price had risen to the ceiling, would have more than compensated the farmer for the removal of the subsidy. In other words the consumer was asked to pay for his own butter without help from the public treasury.

The price of butter to the consumer did increase by about $8\frac{1}{2}$ cents per lb., while the price which the processor paid to the farmer for his butterfat remained approximately the same. The processor now paid the farmer an amount equal to the old price plus the subsidy and recovered his increased outlay for fat through an increased selling price for his butter. On June 9, 1947 the ceiling on butter was removed altogether thus permitting further price increases. The price of butter thereafter rose from an average of $48\frac{1}{2}$ cents, wholesale at Montreal in May, to 63 cents in early January, at which time a ceiling was again imposed. What factor or factors were responsible for this unexpected increase in butter prices and who profited thereby? Let us first look at the butter industry in Canada and attempt to discover those factors which are mainly responsible for the determination of butter prices.

NATURE OF THE INDUSTRY

Production and Utilization of Milk in Canada

The fat content of nearly one-half of the milk produced in Canada is devoted to the production of butter. There are a number of other final consumer products which compete with butter for the use of the supply of milk sold off farms. The resulting allocation of the total supply of milk among these various products is, therefore, partly dependent upon their respective prices, which in turn hinge upon the tastes of Canadian consumers, and upon the strength of export demand. Allocation is only partly dependent upon price since farmers in some areas have no choice as to the use to which they will consign their milk. There are, for example, no cheese factories in Nova Scotia. A dairy farmer beyond the limits of a fluid milk shed or a concentration plant must either use his milk on the farm or sell it to a creamery. Relative market prices will not likely

influence his decision. Some trends in the use of milk have become evident during the past 10 years as may be seen in the succeeding table.

The total production of milk during the war has been remarkably stable, as has been the output of creamery butter. About 40 per cent of the output of milk is skimmed for creamery butter. The production of dairy butter has been halved during the past 10 years. During the war this shift away from dairy butter was accelerated by the nature of the subsidy policy applied to butterfat. Since no subsidy was paid on butterfat used to make dairy butter, producers diverted fat to creameries in order to secure the subsidy. It may also be worth noting that the estimates of dairy butter production, derived as they are from mailed cards filled in by a sample of farmers, are much less reliable than the estimates of creamery butter production which are compiled from production reports completed by all creameries.

The sales of milk for fluid use show a consistent upward trend. The factors responsible for this increased consumption of fluid milk include subsidies during the period of control, increased consumer purchasing power, higher population and a better appreciation by consumers of the high nutritive value of fluid milk. The consumption of milk in fluid form permits of greater utilization of its food value than does any other use. The nutritionists therefore approve of the increasing use of fluid milk for direct human consumption.

The output of cheese varies considerably from year to year depending largely upon the prevailing relative prices of cheese and butter. Since 100 lbs. of whole milk will yield roughly twice as much cheese as butter, the price of cheese must be approximately half that of butter if cheese factories are to be able to secure milk in competition with the creameries. This one to two price relationship is only an approximate one because of the different costs of manufacturing cheese and butter and because of the different values of the by-products secured from the manufacture of these two principal products. It is only a rule of thumb, but a handy one. Mr. J. F. Singleton of the Dairy Products Division of the Dominion Department of Agriculture stated before the Special Committee that when the price of butter is more than $2\frac{1}{8}$ times the price of cheese there is a diversion to butter; as the price ratio approaches two to one there is a diversion in favour of cheese.¹

Many dairy factories are equipped to produce either cheese or butter. The operators of these dual plants are extremely sensitive to price. Specialized cheese factories are likely to continue to produce cheese even though butter is more profitable. However they are likely to find their patrons shipping more of their milk to creameries than to cheese factories and in this way the output of cheese is reduced while that of butter is increased.

Small quantities of whey butter are manufactured in cheese factories. The whey resulting as a by-product from cheese manufacture will have a fat content of from one-fifth to one-quarter of one per cent.

¹Evidence, Special Committee on Prices, p. 1194.

TABLE 89
PERCENTAGE UTILIZATION OF MILK IN CANADA
1942-1947

	1942	1943	1944	1945	1946	1947
Total production of milk (millions of pounds)	17,489	17,519	17,624	17,627	16,937	17,214
Percentage Utilization	P.c.	P.c.	P.c.	P.c.	P.c.	P.c.
Creamery Butter	38.1	41.6	39.7	39.0	37.6	39.6
Dairy Butter	10.5	7.4	7.2	7.1	7.5	7.7
Total Butter	48.6	49.0	46.9	46.1	4.51	47.3
Cheese	13.3	10.7	11.5	11.8	9.7	8.0
Fluid Sales	19.4	21.2	22.2	22.8	25.1	24.2
Concentrated	3.0	3.3	3.5	3.5	3.7	3.9
Ice Cream	1.4	1.5	1.6	1.5	1.3	1.9
Consumed on Farms	9.9	9.8	9.8	9.8	10.3	10.0
Fed on Farms	4.4	4.5	4.5	4.5	4.8	4.7
Total used on Farms	14.3	14.3	14.3	14.3	15.1	14.7
	100.0	100.0	100.0	100.0	100.0	100.0

Source: Dominion Bureau of Statistics, Ottawa.

This fat is recovered by separation and churned into butter. This whey butter sells at a discount of from 10 to 15 per cent below creamery butter, indicating that most people have a preference for the latter product.

The use of milk for the manufacture of concentrated products and ice cream is gradually increasing although both uses are relatively small. However milk for either concentration purposes or for ice cream normally commands a higher price than milk for butter or cheese. These products are, therefore, able to attract the milk which they need away from either butter or cheese.

Yield of Dairy Products Per 100 Lbs. Milk

In order to compare the relative prices of various dairy products it may prove helpful to compare the approximate quantities of each of these products derived from 100 lbs. of milk.

Farmers producing milk to be skimmed for butterfat may either separate their milk on the farm or sell it as whole milk. The butterfat content of milk varies with the season, the breed of cow, and the cow herself. An average yield of 3.5 lbs. of butterfat per 100 lbs. of milk is usually used as a standard. If the milk is separated on the farm, the cream shipped to the creamery will likely test about 35 per cent butterfat—in which case 100 lbs. of 3.5 per cent milk will yield 10 lbs. of 35 per cent cream and 90 lbs. of skim milk. This skim milk has a high protein content and serves as an excellent protein supplement for hogs, calves or poultry.

Although the 10 lbs. of 35 per cent cream contains only 3.5 lbs. of butterfat it will yield about 4.27 lbs. of butter. By the addition of water and salt, creameries are able to make about 123 lbs. of butter out of every 100 lbs. of butterfat or, conversely, each pound of butter contains only about 81.5 per cent butterfat. The industry refers to this process of expansion as an "overrun". The remaining 5.73 lbs. of buttermilk may, in some of the more modern plants, be dried and sold as buttermilk powder for livestock feed. The production of buttermilk powder in Canada is so small as to indicate that only a very small fraction of this by-product is dried. Most goes back to the farm in liquid form to be fed to farm animals.

Some of the newer plants buy whole milk from the farmer, separating and churning the cream and drying the skim for powder. The greater part of this skim milk powder is sold for human consumption. Two or three per cent is sold to be used as an ingredient in prepared poultry or livestock meals. From $7\frac{3}{4}$ to eight pounds of skim milk powder are derived from 100 lbs. of skim milk.

One hundred pounds of whole milk yields about 8.93 lbs. of cheese. The balance is whey and is usually returned to the farm to be used for pig feed, although it may first be put through a separator to recover the very low percentage of butterfat remaining in it.

Now it is possible, given the respective yields and prices of the two products, to compute the relative values of the butter and cheese which may be produced from 100 lbs. of milk. The operator of a dual creamery and cheese factory uses these data to assist him in determining into which of these two products to convert his milk. But he must also take into account the values of the by-products—buttermilk, skim milk, or perhaps casein, if he is making butter, and whey if he is making cheese. Since there is no established market price for buttermilk, skim milk or whey it is not possible to compute the average gross returns derived from milk devoted to either of these two uses. These by-products have a very definite value as feedstuffs, but in the absence of a market it is difficult to impute a price to them. Also the cost of manufacturing the two final products may differ. It is not, therefore, possible for the investigator to work back from the price of the final product, in this case butter or cheese, to the relative prices which the processor might pay for whole milk for each of these uses. The operator of the individual plant, knowing his processing costs and the prices of by-products, probably does use these data to determine which product to produce.

Relative Prices Paid to Farmers for Milk for Various Uses

Milk to be used for various purposes commands varying prices. Fluid milk is invariably priced higher than milk for other uses. In 1947 the average price paid in Canada to farmers for fluid milk was \$3.16 per 100 lbs; for cheesemilk \$2.20; milk used for ice cream \$2.28; for concentrated \$2.39 and for butterfat 55 cents per lb., or an equivalent of \$1.94 per 100 lbs for 3.3 per cent milk.¹ These relationships will be discussed later.

Price then, serves within limits, to allocate the available supplies of milk among competing uses. Those limits are determined for any given farmer by his nearness to a plant. A farmer, for example, cannot sell his milk for concentration purposes if there is no concentration plant within his area. But even though a concentration plant is accessible he may divert milk from such a plant to a creamery if the latter offers a better price. Fluid milk prices are no longer directly determined by the market but are fixed by provincial boards. Milk for fluid uses commands a premium over milk for other uses. More exacting sanitary requirements and the necessity of greater continuity of supply during the year account for part, at least, of this price differential between fluid milk and milk for other uses.

The prices established for butter and cheese during the period of price control were relatively favourable to cheese. Mr. K. W. Taylor, Chairman of the Wartime Prices and Trade Board, in his evidence before the Special Committee confirms this view.

"I think it was a matter of conscious policy to hold butter production. I would not say hold it down, but to emphasize the production of cheese. Cheese was a munition of war in a very

¹Dairy Review of Canada, Statistical Supplement 1947, p. 33.

TABLE 90
DOMESTIC DISAPPEARANCE OF TOTAL BUTTER IN CANADA^a
1939-1947
(thousands of pounds)

Year	A Production	B Stocks first of year	C Imports	D Total supply (A + B + C)	E Exports	F Stocks end of year	G Total deductions (E + F)	Domestic disappearance	
								H Total (D-G)	I Per capita ^b (pounds)
1939	356,878	45,120	5	402,003	12,399	41,769	54,168	347,835	30.87
1940	350,986	41,769	4	392,759	1,337	34,071	35,408	357,351	31.40
1941	370,795	34,071	482	405,348	1,482	44,368	45,850	359,498	31.49
1942	365,798	44,369	593	410,760	1,601	23,213	24,814	385,946	33.69
1943	369,316	23,213	1	392,530	9,408	46,451	55,859	336,671	29.25
1944	356,013	46,684	1	402,698	4,727	41,247	45,974	356,724	30.81
1945	349,899	41,247	3	391,149	5,598	36,499	42,097	349,052	29.84
1946	328,194	36,499	26	364,719	4,509	44,279	48,788	315,931	25.75
1947	349,145	44,279	5,119	398,544	3,107	44,049	47,156	351,387	27.93

a) Production and stocks (A+B) include creamery butter, dairy butter and whey butter. In 1947, the production of creamery butter represented 83.3 per cent of the total make, dairy butter 16.1 per cent, and whey butter 0.6 per cent.

b) Based on population figures which have been adjusted for overseas personnel, 1941 to 1946.

Source: Dominion Bureau of Statistics, Ottawa.

real sense of the term. It was a commodity which the British were pressing us for, and which they could never get too much of from Canada. Throughout the war years the policy of the government was to give cheese an edge, so to speak. Secondly the consumer subsidy on milk, fluid milk, together with the buoyant purchasing power in urban areas did draw off a great deal more milk into the fluid milk market, and it was the government policy as I understood it, that the requirements of fluid milk had to be met. We tried to maximize our cheese production, but just produced enough butter to get by.”¹

With the discontinuance of subsidies and ceilings in May and June of 1947 the scales tipped in favour of butter. Cheese production has declined steadily since that time.

SOURCES OF SUPPLY AND ORGANIZATION OF THE INDUSTRY

General Relation of Supply to Consumption

Canada has in the past been almost self-sufficient with respect to butter. As may be seen from the foregoing table her exports have been small relative to total production and her imports even smaller. Mr. J. F. Singleton in his evidence before the Committee stated that

“it has been government policy, to the extent government can influence these things in peace time, to direct agricultural production towards a self-sustaining position in butter rather than being on an import or export basis.”²

The prohibition of the production or manufacture of margarine in Canada, which has recently been lifted, together with a Canadian tariff of not less than five cents per lb. on butter, would tend to substantiate Mr. Singleton’s belief.

The bulk of our small exports of butter traditionally go to Newfoundland and the West Indies. Some points in Alaska are, because of their inaccessibility, supplied with Canadian butter. Canada shipped some 11 million lbs. to the United Kingdom in 1939 and seven million lbs. again in 1943 when an acute shortage threatened in that country as a result of the loss of two cargoes from Australia and New Zealand.

GEOGRAPHICAL PATTERN OF BUTTER PRODUCTION AND CONSUMPTION IN CANADA

The large butter producing provinces in Canada are Quebec and Ontario. This is no accident. Much of the soil in these provinces will yield higher returns when used to produce grass rather than grain.

¹Evidence, Special Committee on Prices, p. 1138.

²Ibid., p. 1160.

Milk cows convert this grass into a saleable product—milk. Over large areas of the Prairie provinces, on the other hand, the production of grain will yield higher returns than the production of grass. Many farmers in eastern Canada have found it economical to use an increasing proportion of their improved land to produce hay and pasture and to “import” grain from western Canada. The policy pursued by the Dominion government since 1941, of paying the freight from the lakehead on feed grains to be fed on eastern farms, has encouraged this practice. By using their own land to produce grass and importing grains farmers in central Canada have been able to increase their output of livestock products without adding more acres to their farms.

Despite the relatively large output of butter in central Canada the latter is a deficit area for this product. Although no statistics are compiled on exports and imports by province we can, by making the assumption that per capita butter consumption is the same in all provinces, calculate the probable interprovincial movement. The estimated per capita disappearance in 1947 for Canada as a whole was 27.9 lbs. This average disappearance estimate is multiplied by the population in each province to secure an estimate of probable total consumption for the province. The difference between probable consumption and the production of butter indicates the extent to which each particular province is a surplus or deficit area. These data are summarized in the following table.

TABLE 91

PRODUCTION AND PROBABLE INTERPROVINCIAL MOVEMENT OF BUTTER
BY PROVINCE, 1947

(millions of lbs.)

Province	Production	Probable Exports	Probable Imports
Prince Edward Island	4.1	1.5	—
Nova Scotia	9.3	—	8.0
New Brunswick	11.6	—	2.0
Quebec	105.8	1.0	—
Ontario	86.9	—	30.0
Manitoba	32.2	11.5	—
Saskatchewan	51.1	27.6	—
Alberta	41.5	18.6	—
British Columbia	6.1	—	23.6

Source: Evidence, Special Committee on Prices, p. 1193.

In effect Ontario, British Columbia and the Maritimes are dependent upon supplies of butter from the Prairie provinces.

FACTORS DETERMINING THE PRICE OF BUTTER

In order to assess properly the rather extraordinary increase in the price of butter which occurred during the latter half of 1947, it is necessary to discuss briefly the more important of those factors of demand and supply which determine the price of butter in the absence of price controls and rationing.

Seasonal Variation in Production and the Function of Storage

The production of butter during the year is highly irregular owing to differences in cost of production which in turn varies with the season. Milk cows are kept out on pasture for about five months of the year, from May through September. Most dairy farmers who are producing milk for other than fluid uses plan to have their cows freshen in the spring in order to have them on grass during the flush part of their lactation period. The milk produced during this "pasture" period is obtained at considerably lower cost per pound than that produced during the winter when the cows must be stabled and fed grain, hay and other succulent feeds. Higher production per cow during the summer and a higher percentage of cows being milked account for a substantially higher output of milk during that season than in winter.¹

Since fluid milk cannot be stored it must be, and is, produced as needed for consumption. Concentrated products, butter and cheese, are storable and may, therefore, be produced during those months of the year when production costs are lowest and held in storage until winter. The seasonal variation in the output of cheese is very great; that of butter somewhat less.

The succeeding table shows the average monthly production and disappearance of butter in Canada during the period 1939-1947. The excess of production over consumption from May through September goes into storage to be withdrawn during the five or six months in which consumption exceeds current production. In this way storage stocks bridge the gap between seasonally regular consumption and seasonally irregular production. From an economic standpoint it makes good sense to produce a surplus of butter during the season when the production costs of milk are low and to hold this butter in storage for use during a period of the year when the cost of producing milk is higher. In other words it is cheaper to produce a substantial part of the butter which is eaten in December by making it in June and storing it until December rather than to make it in December from milk produced during that month.

¹The average daily production of milk per cow in June 1948 was 23 lbs. per cow as compared with 13 lbs. in December 1947. Similarly 85 per cent of the milk cows on farms were being milked in June as compared with 68 per cent in December (Dominion Bureau of Statistics, Ottawa).

TABLE 92

AVERAGE PRODUCTION, DISAPPEARANCE AND STOCKS OF BUTTER BY MONTHS
1939-1947
(millions of lbs.)

Month	Average Production	Domestic Average Dis- appearance	Changes in Storage Stocks	Average Storage Stocks (1st of month)
January	16.3	26.3	-10.3	39.7
February	15.6	25.4	- 9.9	29.4
March	19.2	26.5	- 7.7	19.5
April	25.2	26.8	- 1.9	11.8
May	37.9	29.3	+ 8.1	9.9
June	50.3	30.3	+19.4	18.0
July	46.9	29.8	+16.7	37.4
August	41.5	31.4	+ 9.7	54.1
September	36.7	33.1	+ 3.3	63.8
October	29.9	33.9	- 4.8	67.1
November	20.0	30.5	-11.1	62.3
December	15.9	27.4	-11.5	51.2

Source: Dominion Bureau of Statistics, Ottawa. Changes in storage stocks are only approximately equal to the difference between production and disappearance since small exports are not included in disappearance.

The level of storage stocks also varies in a fairly regular pattern during the year. They reach a low point about the first of May and it is during the spring that any shortages in supply become acute. As the level of production climbs above that of disappearance, stocks increase. About October 1 disappearance again begins to exceed production and storage stocks decline.

In the absence of price control, the typical seasonal movement of butter prices is the converse of the seasonal variation in production. During the summer months when the output of butter is at a seasonal peak the price of butter reaches a seasonal low. Conversely, when butter production is low during the winter and early spring, butter prices reach a seasonal high. Prior to the imposition of price control this characteristic seasonal variation in price was clearly evident. After the imposition of controls the seasonal movement was confined to the range between the established ceiling and floor.

Were it not for storage the variation in butter prices between summer and winter would be much greater. Storage lessens the supply of butter offered to consumers during the summer months and increases the supply offered during the winter months. In this way the price to the butterfat producer is increased over what it would otherwise be during the flush season of production and the price to the consumer is decreased below what it would otherwise be during the winter months.

Those traders, who own or can rent cold storage space, observe that a profit may be made by buying butter during the summer months when prices are relatively low, and selling it during the winter when they are

higher. They will therefore go into the market and buy butter during the summer in the expectation that they will be able to sell it again during the winter at a price which will cover storage costs and yield them a profit which they consider large enough to have made the venture worth their while. The action of these traders increases the total demand for butter during the summer months, thereby raising its price, and increases the supply available to consumers during the winter, thereby lowering its price below the level which would otherwise have prevailed.

Storage operations are therefore a form of arbitrage over time. If, during the summer months, traders knew with certainty what price would prevail for butter during the winter they would bid for and store available supplies until the spread between summer and winter prices was no greater than the cost of storage plus normal profits. Actually, in the absence of price control, traders do not know what price will prevail for butter during the winter months. If a ceiling price is in effect, firms will not buy and store during the summer if the difference between the prevailing price and the ceiling is too narrow to cover costs plus profit. Even below such a ceiling price some risk may still exist since there is no guarantee that the market price will rise to the ceiling price during the winter months.

Given perfect certainty as to future prices, the price of butter during the winter months could not exceed the price during the summer by more than the cost of storage between the two periods—so long as storage space was available. Actually, those firms storing butter do not have anything approaching perfect knowledge regarding the future price of butter. If consumer demand during the winter is not as strong as anticipated, or the winter supply of butter is greater than expected, the selling price of those firms storing butter may well be less than their original purchase price plus costs of storage. That these firms may lose on storage operations during some years is evident from the cost statements which they submitted to the Special Committee.

It is worth noting that those firms storing butter are not only attempting to make storage costs on butter but are also speculating on a further increase or a decrease in the value of their butter inventories between the time of initial storage and sale. This risk of a change in the price of the commodity during the storage period must be borne by someone. When the futures market for wheat was operating, most of those firms storing wheat hedged their storage stocks against price change—i.e., they sold a future against the stocks which they held. If the price of wheat declined they gained on their futures transaction approximately what they lost on their storage stocks. Similarly if the price advanced they lost on the futures transaction and gained on the grain held. An exporter, or a miller, with commitments for future delivery, might hold these contracts which the storing firm had sold—or they might be held by a speculator anticipating an increase in price. In any event, practically all of the firms storing butter accept the risk of price change, i.e. they do not hedge their stocks.

The Level of Butter Production

The average price of butter over the year is determined by the demand of Canadian consumers for butter and the supply of butter offered for sale. The price of butter in Canada is not much affected by the price of butter in other countries since little comes in over our tariff and little is exported. The prohibition of the manufacture or importation of a close butter substitute up to the present time also causes the domestic butter price to vary directly with the Canadian supply of and demand for butter. There are a number of factors which, in turn, determine this supply and demand.

The supply of butterfat is, as has been pointed out earlier, determined in the short run by the price offered for butterfat relative to that offered for milk for other uses. While the price structure largely determines the allocation of available milk, the output of milk may itself be increased or decreased. Weather conditions during the pasture period exert a marked influence on the yield of milk per cow. If pasture conditions permit cows to be turned out early in the spring and the grass does not deteriorate from drought during the season, the output of milk will be higher than under less favorable weather conditions.

The price of those protein and carbohydrate concentrates fed by dairy farmers also influences supply. If high protein feeds and grains are cheap relative to the price of milk, farmers will feed more of these concentrates and, thereby, increase the output of milk. In October of 1947 the Dominion government discontinued its subsidy payments of 25 cents per bushel on wheat and barley and 10 cents per bushel on oats, used for feed, and, at the same time, removed the ceilings on oats and barley. The price of feed wheat to the dairy farmer immediately increased by 25 cents per bushel, oats by about 30 cents and barley by about 55 cents. Under the stimulus of these increased feed prices many farmers began to cut down on the quantities of grain fed, and partially to replace grain with hay. As they did so, their cows gave less milk.

The Dominion government is still subsidizing the production of milk and wheat in eastern Canada by paying the freight from the head of the lakes on coarse grains, wheat and millfeeds to be used for feed. This policy encourages a larger output of livestock products by making their production more profitable to the farmer.

There is another factor, the importance of which it is difficult to evaluate, affecting the supply of milk. This is the export of dairy cattle from Canada. The exportation of purebred cattle and cattle for dairy purposes was permitted throughout the war and post-war years and considerable numbers went to the United States and to Latin American countries. In 1947 Canada exported 82,727 head of all cattle. Included in this number were 46,506 head of grade dairy cows, practically all of which went to the United States. These would be, for the most part, cows in milk or to freshen. Some may have been cows more suited for beef than milking purposes, and, when once in the higher priced American beef market, soon found themselves in a packing plant. A

similar fate probably overtook a number of purebred dairy bulls which were exported as breeding stock. Those farmers selling cows for export apparently concluded that greater returns were to be had by selling their cattle than by retaining and milking them. Most of the dairy cattle exported were from Ontario, Quebec and the Maritimes. The estimated number of milk cows and heifers over two years old on Canadian farms, at December 1, 1947, was about 50,000 head less than at the same date in 1946.

Another factor which has tended to reduce the output of milk, particularly in western Canada, has been the increasing price of beef relative to milk. Much of the churning cream produced in the Prairie Provinces is from dual purpose cattle. With higher beef prices, there has been some tendency to let the calves do the milking and to sell more beef and less milk. There is also some evidence that, as prairie farmers' incomes increased with advancing grain prices and better than average yields, they became less willing to milk cows and sell cream. There was a sharp contraction in the make of creamery butter in Saskatchewan after 1944. Output in that year was 48 million lbs; in 1947 it was 36 millions lbs.

All of these factors combine to determine the absolute level of milk output and its allocation among the various products competing for its use. The supply of butter available to consumers at any time during the year depends not only upon current production at that time but also upon the movement into or out of storage. If, during the summer months, the management of those firms which store butter expects the winter price to exceed the prevailing price by an amount equal to, or greater than the cost of storage, there is likely to be a relatively heavy movement of butter into storage.

On the demand side the important determinants of the quantities of butter purchased by consumers appear to be the price of butter and consumers' income. If price were left free to "ration" available supplies of butter there would not be "shortages" as such. On the other hand, prices would rise to very high levels in the spring of a year in which supplies were small, as in April of 1948. Many consumers, at present income levels, are prepared to pay very high prices for butter since no close substitute has been available up to the present. A ceiling was imposed on butter on January 19, 1948 in order to stop the upward trend of prices. Consumers were now willing to buy more butter at ceiling prices than was available. Hence a "shortage" was inevitable since rationing had been discontinued on June 9, 1947.

Some people express surprise that Canadians were, during the latter months of 1947, prepared to consume more butter at 65 cents per lb. than they did in 1939 at 35 cents per lb. This does not mean that people do not buy less butter as its price rises—if their incomes remain constant. In point of fact Canadian consumers' personal disposable income available for expenditure or saving after the payment of personal direct taxes was twice as great in 1947 as in 1939.¹

¹Dominion Bureau of Statistics, Ottawa.

The Canadian Commodity Exchange

Since the Commodity Exchange itself is frequently thought to be one of the factors determining the prices of the commodities which are traded on the exchange, its organization and method of operation merit some comment. The Canadian Commodity Exchange in Montreal was established in 1935. Its purpose is to provide a place where buyers and sellers may meet together in order to buy and sell butter for either immediate or future delivery. It is the only organized exchange in Canada on which butter is traded. The Exchange itself is a non-profit organization and neither buys nor sells. It meets its expenses by means of an annual assessment of \$60 on each of its 31 members. These members may either buy and sell on their own account or, acting as brokers, on behalf of their clients.

Butter may be bought or sold for either immediate or future delivery. Trading in butter for future delivery, or "futures", simply means the execution of contracts to accept, or to deliver, a specified grade of butter during some future month at a specified price. A wholesale butter dealer, for example, may have undertaken to supply butter to his retail customers during the winter months. In order to assure himself of being able to get this butter at a specified price during these months he may buy butter futures on the Exchange.

The Canadian Commodity Clearing Association undertakes to see that the person or persons who sold these contracts for future delivery, honours them when the time comes. The seller may, in this case, have been a creamery which will have butter to deliver during the winter months. It might also have been a firm storing butter in order to earn the storage charges. By selling a future against the butter which it holds, such a firm is said to be "hedging". It is protecting itself against either gains or losses resulting from a change in the market value of the butter which it holds. If the price of butter increases the firm gains on the butter which it holds and loses on its futures contract and conversely. We have noted earlier that few, if any, of the firms storing butter avail themselves of this opportunity to protect themselves against gain or loss resulting from changes in the market value of their inventories. Since these firms do not hedge their storage stocks they are themselves bearing the risk of price change.

The function of the Canadian Commodity Clearing Association is to act as the "bookkeeper for the Commodity Exchange". In order to enforce contracts which have been made, the Clearing Association sees to it that all traders are "maintaining their position". If, for instance, a firm has sold a contract for future delivery (a "short") and the price advances, that firm must pay in to the Clearing Association the increase in price on each unit sold. Conversely, the person who has purchased the contract (a "long") may withdraw from the Clearing Association the amount of the increase in price. If the "short" refuses to make his payment as the price advances, his contract is immediately cancelled by the execution of an offsetting contract. In this way everyone's account

is kept on a current basis and there is no chance of default. The sum of the "short contracts" must always balance with the sum of "the longs" since for every seller there must be a buyer.

Persons or firms trading in futures are permitted to buy or sell on a "margin". That is, a person either buying or selling a future is not required to deposit the entire market value of his contract with the Clearing Association. On a contract for a "carlot" of butter of 22,400 lbs. with a market value of, say \$15,000, a trader is required to put up only \$1,500. He must maintain his equity with the Clearing Association by keeping his account "margined" up to the close of the market each day.

The Clearing House partially defrays its operating expenses by charging a fee of one cent per box of 56 lbs. of butter traded for immediate delivery and \$2 per contract on futures. It has seven members.

On many commodity exchanges there are people trading in futures who are not handling butter at all. If any such person considers the quoted price of any butter future which is being traded to be too high, or too low, relative to the market price which is expected to prevail either before, or at the time, this future is to be closed out, he will "sell short" or "buy long" as the case may be. If he sells short and the price falls or, if he buys long and the price rises, he makes money. If the price moves the other way he loses. The futures market thus offers an opportunity for those who wish either to "hedge" or to "speculate" to do so.

Speculators during the thirties and forties of this century have frequently been in bad repute. Whether or not the speculator merits this reputation may depend upon what kind of a speculator he is. Intelligent speculation, based upon an accurate knowledge of supply and demand conditions tends to even out prices over time. On the other hand uninformed speculation may cause unnecessary short-run fluctuations in price. If enough traders think that the price of a future is going up it will go up as a result of their own actions. If this expectation is unjustified by the fundamental conditions of supply and demand, the price will later drop back to its equilibrium level. In other words traders' expectations may tend to be "self-justifying".

The evidence presented to the Special Committee on Prices indicates that the volume of trading in either spot butter or futures contracts on the Montreal Commodity Exchange is very small relative to total production and sale of butter in Canada. Mr. K. H. Olive, President, Canadian Commodity Exchange, Montreal, stated that butter is not offered for sale on the Exchange except where Montreal is the logical market for such butter. Some 10 million lbs. were sold "on spot" in the Exchange in 1946.¹ This quantity is less than 3½ per cent of the total output of butter in Canada for that year.

The volume of futures traded on the Canadian Commodity Exchange is also very small. Futures are frequently not traded, particularly when a ceiling is in effect since no one is willing to enter into contracts for future delivery. Prices are tight up against the ceiling and wholesalers

¹Evidence, Special Committee on Prices, p. 1740.

and wholesale-retailers are of necessity getting their supplies directly from the creamery rather than through the Exchange. In 1947 the total volume of futures traded amounted to 14.4 million lbs. or only 4.17 per cent of total production.¹

There is no evidence to indicate that speculation on the Commodity Exchange had any appreciable effect upon the price of butter during the intercontrol period from June, 1947 to January, 1948. Since only a very small proportion of total butter supplies are traded on this exchange there appears to be little or no opportunity for traders to raise or depress the price above or below the equilibrium established by existing demand and supply. "Long" speculators would, for instance, find it almost impossible to raise the price appreciably by insisting upon taking delivery in the contract month. To make such a "corner" effective traders must also have control of a large part of the existing stocks of butter in Canada as well as the current production coming on to the market from day to day. Such a degree of control of supplies would be extremely difficult to achieve.

PRICING AND SELLING POLICIES

Butter was one of the first commodities to be brought under a price ceiling at the beginning of World War II. The Wartime Prices and Trade Board established a temporary maximum wholesale price for butter, effective December 28, 1940, in order to stop a rapid rise in the price of this foodstuff during the winter months. This action of the Board is indicative of a marked change in the Canadian butter situation in 1940 as compared with 1939. Prices for butter were sufficiently low during the summer of this latter year to cause Parliament to vote one million dollars for the purchase and distribution of creamery butter to low-income families.

In January of 1941, the Dairy Products Board was given authority to establish floor prices for butter and these were made effective in May as firm prices at which the Board would purchase any butter offered for sale. This floor price, in effect from May through December, was increased by a half cent per pound a month to cover storage charges. Since the market price remained above the floor, the Dairy Products Board was not required to purchase any butter in order to make the price guarantee effective.

On May 1, 1942, maximum wholesale prices for butter were established by the Wartime Prices and Trade Board for each province with an increase of three-quarters of a cent per lb. per month permitted to cover storage costs. On July 6, a floor price was fixed at a level of two cents per lb. below the wholesale ceiling. At the same time a subsidy of six cents per lb. on butterfat was made payable to the butterfat producer on deliveries made to creameries. On December 21, 1942, the wholesale

¹Evidence, Special Committee on Prices, p. 1741.

price was reduced to the level which prevailed during the base period of the general price control order—September 15 to October 11, 1941. In order to avoid lowering the price paid to the producer for his butterfat, the subsidy on the latter was increased to 10 cents per lb. Although this butterfat subsidy was lowered to eight cents per lb. from May 1 to December 31, 1943, it was, thereafter, restored to 10 cents per lb. at which level it remained until its removal on May 1, 1947.

Butter prices to the consumers then, were held down by a ceiling while the price paid to the producer for butterfat was guaranteed by a floor price and increased by a direct subsidy. Since consumers were prepared to buy more butter than was available at ceiling prices, a ration of eight ounces per person per week was established on December 21, 1942. The floor price at which the Dairy Products Board was prepared to buy was varied seasonally in order to encourage greater production during the winter months when production costs are highest, and also in order to enable firms to store butter during the summer and sell it during the winter. Butter purchased during the summer and fall months by the Dairy Products Board was, for the most part, sold back on to the domestic market during the winter. Some was sold for export to the United Kingdom, to the West Indies or to provision British warships in the Pacific.

While controlling the price paid to the producer for butterfat, the government was, at the same time, controlling the price paid to the producer of cheesemilk by means of subsidies on cheesemilk, quality bonuses for cheese and the negotiation with the United Kingdom of export contracts for cheese. One of the objectives of this policy was to make a maximum quantity of cheese available for export to the United Kingdom while maintaining a modest butter ration in Canada. During 1944 it was not possible to maintain an eight ounce butter ration and on January 1, 1945, the ration was reduced to six ounces per person per week.

The Wartime Prices and Trade Board exercised similar controls over the price paid for fluid milk for consumption by means of price ceilings, consumer and producer subsidies. These various provisions enabled the government to exercise a fairly high degree of control over the allocation of milk among the various products competing for its use.

During 1947 an arrangement was made with the British Ministry of Food for the importation into Canada of about five million lbs. of New Zealand and Australian butter. On May 1, 1947, the 10 cent subsidy to butterfat producers was discontinued and the ceiling price of butter increased by 10 cents per lb. At this time the government took steps to recover inventory profits made by storers of butter due to the removal of the subsidy. This was calculated to be $8\frac{1}{2}$ cents per lb. On June 9th the ceiling and rationing regulations were completely removed leaving the determination of butter prices to the open market.

ANALYSIS OF BUTTER PRICES DURING THE INTER-CONTROL PERIOD,
MAY 1, 1947—JANUARY 19, 1948

Although the ceiling on butter was raised by 10 cents per lb. on May 1, 1947, the market price failed to rise to the full extent permitted. Butter prices at both wholesale and retail levels increased by about 8½ cents per lb. The action of the government in recovering this price advance on storage stocks prevented the owners of such butter from receiving a fortuitous gain on inventories. Both the retail and wholesale prices of butter held through July at about the pre-decontrol level plus the butter equivalent of the subsidy on butterfat. Since each pound of butter contains a legal minimum of four-fifths of a pound of butterfat and the consumer was in effect now paying this former subsidy, the 8½ cent increase in the price to the consumer was not out of line.

During August, butter prices began to climb and, with the exception of a minor recession in October, this upward trend continued until a ceiling was re-imposed on January 19, 1948. The factors responsible for this increasing price level for butter are well summarized in a statement made before the Special Committee by Mr. K. H. Olive, President, Olive and Dorion, Limited, and also President of the Canadian Commodity Exchange in Montreal. Mr. Olive was the administrator of dairy products in the Wartime Prices and Trade Board from April, 1943 until June, 1947. His analysis follows:¹

Why Did Prices Advance?

Price is the factor, which, on a free market, reflects the relation of supply to demand.

Effective wartime control of the price of butter was adjusted to the supply by means of coupon rationing.

When rationing was discontinued and consumers again were free to purchase unlimited quantities of butter, price once more became the factor which reflected consumer demand in relation to producer supply.

In the last seven months of 1947, disappearance of butter in Canada increased 26.8 million pounds, while in the same period production increased only 19.1 million pounds.

This trend of over consumption in relation to production was first revealed in D. B. S. statistics released July 10 which showed an increase in disappearance of about 3.5 million pounds for the month of June, 1947 over June, 1946. Not too much importance was attached to the increase at that time because it had been expected that in the first few weeks following the discontinuance of rationing, both consumers and retailers would buy a little extra butter to build up to normal icebox reserve. However, when

¹Evidence, Special Committee on Prices, p. 1754.

D.B.S. figures released August 10, revealed a further very substantial gain in disappearance, the industry concluded that the heavy increase in demand from Canadian consumers would continue and would not be equalled by a corresponding increase in supply unless prices advanced to encourage still greater production.

Buying was very active all over Canada from the middle of August to the end of September and producers were able to demand progressively higher prices. In this period butter prices moved up about six cents per pound.

Analysis of the buying in August and September shows that actual disappearance of butter increased by almost 9.5 million pounds over 1946 and in face of such heavy movement into consumer channels, plus the growing concern of distributors regarding their winter trade requirements, the upward movement of prices was inevitable.

When it became known early in October that production had shown a spectacular gain in September, almost eight million pounds above 1946, demand fell off and prices weakened.

The improvement in the production picture was not the only factor which contributed to the decline, however, for at that time there was talk of possible imports, reimposition of ceiling prices and a great deal of clamor for margarine. Prices were higher than most people in the industry could recall and there was widespread nervousness.

From the first of October to the middle of November, butter prices moved in a range between 55 cents and 60 cents per pound.

During this period, on October 22, 1947 to be exact, ceilings and subsidies were removed from coarse grains and feeds and prices for these commodities advanced sharply. In eastern Canada in 1947, there was a substantial decline in the production of coarse grains so that the dairy farmers were not only faced with the necessity of heavier purchases from western Canada to maintain winter milk production, but also faced rapidly mounting costs. Meanwhile industry efforts to obtain relief through imports had proven unavailing and there was no indication that the government had been any more successful. Under these changed conditions, the future supply picture deteriorated. It seemed apparent that domestic stocks and production must supply the requirements of the Canadian consumers and no one in the industry had any remaining doubt of butter shortage under such circumstances.

Demand from distributors and consumers, seeking to protect their winter supply, again became very active and once again producers were able to demand and obtain progressively higher prices.

About that time, a good deal of publicity was given to the probability of a butter shortage and in my opinion, this had the effect of frightening consumers into buying more than immediate requirements. It is difficult to assess the extent of this consumer hoarding but it was undoubtedly a factor in the price increase. A study of disappearance figures for the last three months of 1947 compared with January and February 1948 has convinced me that advance buying by consumers amounted to substantial proportions, perhaps several million pounds. The January-February figures were low and I conclude from this fact and my knowledge of the butter movement, that consumers were eating in January and February the extra butter they acquired in the fall of 1947.

Total butter production in November and December increased only about 1.4 million pounds but disappearance in the same period increased 6.3 million pounds over 1946 and I think these figures substantiate what I have said about higher production costs and consumer hoarding.

The whole story of price increase is one of demand exceeding supply. I have no hesitation in stating that most people in the butter industry did not want to see extreme prices. I believe producers also would have been content with lower prices if feed costs had not risen.

In my opinion, speculation or withholding were not factors in determining the price level but shortage in relation to consumer demand, and shortage only, was responsible for the increase in price.

The significant statistics which Mr. Olive cites are those of production and disappearance for each month, together with storage stocks at the beginning of the month. The following tables contain these data for the 1939-1947 period.

The Canadian output of 290.8 million lbs. of creamery butter in 1947 was actually above that of 1946 and substantially higher than the average production of 254.8 million lbs. during the 1935-1939 period. Stocks too were as high, and sometimes much higher in 1947 than at the corresponding date in 1946. The statistics on disappearance explain the story of the shortage. Average monthly disappearance for each month after the removal of rationing ran well ahead of disappearance during the corresponding month of 1947.

The key to an understanding of rising butter prices during the last half of 1947 seems to be the fact that consumers wished to buy more butter at the prices at which butter was selling than they had been able to get when rationing was in effect. Since no immediate and substantial increase in the output of butter in response to these rising prices was

TABLE 93
PRODUCTION OF BUTTER IN CANADA BY MONTHS
1939-1947
(thousands of pounds)

	1939	1940	1941	1942	1943	1944	1945	1946	1947
January	16,770	17,192	18,346	17,024	17,603	15,268	15,685	14,039	14,362
February	15,810	16,253	16,959	15,980	16,511	16,713	15,117	13,307	13,429
March	19,225	18,541	20,335	19,235	20,672	19,497	20,019	17,277	17,788
April	23,641	24,186	26,488	23,923	27,851	24,841	25,721	24,420	25,506
May	36,577	35,812	41,470	37,400	37,812	39,700	37,831	37,269	37,032
June	50,912	49,525	49,668	50,227	52,630	51,841	50,221	48,381	49,400
July	45,535	46,921	46,203	47,192	49,414	46,368	47,280	45,804	47,391
August	41,099	40,624	42,156	42,690	43,514	41,501	42,425	38,595	40,932
September	37,948	34,253	39,870	38,808	38,386	36,166	35,318	31,003	38,832
October	31,014	29,631	31,795	31,689	29,744	28,921	28,341	26,663	31,670
November	21,360	20,825	20,601	22,365	19,585	20,322	17,981	17,587	18,928
December	16,987	17,223	16,903	19,265	15,594	15,875	13,960	13,849	13,875
Year — Creamery Butter	267,613	264,724	285,848	284,591	311,709	298,777	293,811	271,491	290,841
Dairy Butter	87,459	84,256	82,796	78,525	55,407	54,580	53,283	54,225	56,295
Whey Butter	1,806	2,006	2,151	2,682	2,200	2,656	2,805	2,478	2,009
Total butter	356,878	350,986	370,795	365,798	369,316	356,013	349,899	328,194	349,145

Source: Dominion Bureau of Statistics, Ottawa.

TABLE 94
DOMESTIC DISAPPEARANCE OF TOTAL BUTTER IN CANADA BY MONTHS^a
1939-1947
(thousands of pounds)

Year	Jan.	Feb.	Mar.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
1939	25,146	25,156	27,450	26,268	30,438	31,662	29,865	31,519	35,500	31,705	27,969	25,157	347,835
1940	25,498	26,174	27,645	27,720	30,573	31,425	29,519	32,036	33,878	36,465	30,709	25,709	357,351
1941	24,755	26,068	27,725	27,718	31,375	31,857	31,479	31,476	33,743	35,187	31,187	26,928	359,498
1942	27,990	27,428	29,726	28,479	33,013	33,267	32,002	34,641	36,216	40,254	34,425	28,505	385,946
1943	25,449	19,312	23,010	26,479	29,235	30,013	28,350	31,030	34,324	31,399	29,638	28,432	336,671
1944	28,220	28,565	27,824	26,574	30,790	30,932	29,632	30,671	32,362	32,732	31,208	27,214	356,724
1945	25,891	24,708	26,660	25,979	30,463	29,193	30,317	30,763	31,155	33,944	31,417	28,562	349,052
1946	27,225	26,063	21,461	22,836	25,565	26,451	26,760	27,549	28,192	30,080	27,455	26,294	315,931
1947	26,205	25,061	27,291	29,445	23,803	30,028	30,643	32,709	32,467	33,725	30,662	29,348	351,387

^a Total butter production includes creamery, dairy and whey butter for all years, but whey butter stocks cover the period commencing January 1, 1944.

Source: Dominion Bureau of Statistics, Ottawa.

TABLE 95
STOCKS OF BUTTER IN CANADA AT THE FIRST OF EACH MONTH
1939-1948

(thousands of pounds)

Year	Jan. 1	Feb. 1	Mar. 1	Apr. 1	May 1	June 1	July 1	Aug. 1	Sept. 1	Oct. 1	Nov. 1	Dec. 1
1939 ^a	45,120	35,382	23,616	13,213	9,953	15,084	33,047	47,071	55,637	57,852	56,901	50,044
1940 ^a	41,769	33,369	23,371	14,232	10,611	15,799	33,763	51,037	59,475	59,681	52,702	42,672
1941 ^a	34,071	27,596	18,469	11,150	10,038	20,045	37,711	52,273	62,811	68,785	65,275	54,500
1942 ^a	44,368	33,325	21,797	11,261	6,695	11,456	28,331	43,311	51,140	53,454	44,655	32,535
1943 ^a	23,213	15,324	12,427	10,026	11,378	19,865	42,265	63,239	75,655	79,318	73,013	59,724
1944 ^b	46,684	33,648	20,343	11,693	9,541	17,735	38,193	54,378	64,758	68,269	64,141	52,925
1945 ^b	41,247	30,826	20,807	13,621	12,816	19,751	40,263	56,960	68,199	71,995	65,556	51,678
1946 ^b	36,499	23,011	9,997	5,450	6,872	18,363	40,088	58,799	68,914	71,137	67,441	57,126
1947 ^b	44,279	32,016	24,222	15,419	11,327	24,046	42,861	59,430	67,509	73,680	71,426	59,594

^a) Includes imported butter; stocks in bond not included.

^b) Whey butter stocks January 1, 1944 to February 1, 1948, are included.

Source: Dominion Bureau of Statistics, Ottawa.

possible there was no way, short of formal controls, of checking the upward trend in prices.

An examination of the storage statistics of those firms who testified before the committee yields little evidence of hoarding in an effort to force butter prices to a higher level.

Mr. J. S. Turnbull, General Manager, Saskatchewan Co-operative Creamery Association, Limited admitted that his co-operative did hold 332,000 lbs. of butter, over and above working stocks, off the market during the summer of 1947. He refused, however, to accept Mr. Johnston's suggestion that this was "hoarding to obtain a price", maintaining rather that it was "orderly marketing as a producer organization".¹

An economist expecting firms to maximize their profits might be surprised at the failure of firms storing butter to hold more of their stocks than they did in expectation of higher prices. Consumers were expecting rising prices and therefore stepping up their purchases and apparently indulging in "ice-box hoarding". This action would, of course, serve to accentuate the price increase. Many firms may, however, have foreseen the possibility of a renewal of ceilings and concluded it wise to accept the unprecedented windfalls which had fallen their way without holding out for still larger gains.

EFFECTS OF DECONTROL

We have seen that immediately after the removal of the price ceiling and the subsidy on butter the price to the consumer increased by about 8½ cents a lb., which was the approximate subsidy paid to the farmer on the butterfat content of a pound of butter. The total price which the farmer received for his butterfat did not increase; he simply received full payment from the consumer now, whereas previously, the government had paid him 10 cents subsidy on each pound of butterfat. Decontrol was effected near the beginning of the heavy production period for both milk and butter and storage stocks were, therefore, just beginning to build up again.

Several firms presented their butter accounts to the Special Committee and these accounts show the profits which these firms made on storage butter operations during the period of decontrol. As is to be expected, profits varied among firms, depending largely upon the quantities of butter stored and the dates of purchase and sale. It may, therefore, prove useful to calculate an approximate rate of profit on all butter storage operations by using the statistics on wholesale

¹Evidence, Special Committee on Prices, p. 1215.

butter prices and the stocks in store at the beginning of each month. These data are summarized in the following table:

TABLE 96
ESTIMATE OF PROFITS MADE BY ALL FIRMS STORING BUTTER
1947-1948

	Average Wholesale Price, No. 1 Solids Montreal (cents per lb.)	Movement into (+) or Out of (-) Storage (thousands of lbs.)	Firms Total Outlay(+) or Receipts (-) (thousands of dollars)
May 1947	48½	+12,719	- 6,169
June	49¾	+18,815	- 9,360
July	49¾	+16,569	- 8,264
August	55¼	+ 8,079	- 4,464
September	59½	+ 6,171	- 3,649
Sub-total		+62,353	-31,906
October	57½	- 2,254	+ 1,288
November	60¾	-11,832	+ 7,144
December	66½	-15,545	+10,279
January	68	-12,346	+ 8,395
After February 1, 1948	67½	-20,376	+13,754
Sub-total		-62,353	+40,860
Total		0	+ 8,954

Weighted "into storage" price	$\frac{31,906}{62,353}$	= 51.2 cents per lb.
Weighted "out of storage" price	$\frac{40,860}{62,353}$	= 65.6 cents per lb.
Average gross storage profit	$\frac{8,954}{62,353}$	= 14.4 cents per lb.
Average net storage profit	14.4 - 3.	= 11.4 cents per lb.

Source: Dominion Bureau of Statistics, Ottawa.

The total market value of butter going into storage is deducted from the value of this butter at the time it was taken out of storage and sold. The average weighted wholesale price of the butter going into storage was 51.2 cents per lb.; the weighted price of butter taken out of storage was 65.6 cents per lb. or a gross spread of 14.4 cents per lb. Any difference between the inventories of butter as of May 1, 1947 and May 1, 1948 is not taken into account in making this calculation; it is assumed that all butter stored during the storage period of 1947 was removed from storage prior to May 1, 1948.

From the gross spread of 14.4 cents per lb. must be deducted costs of storage. Assuming an average storage period of six months and a storage cost of a half cent per lb. per month¹ total storage costs would be approximately three cents per lb. Net storage profit would then be about 11.4 cents per lb. on all butter stored. This over-all estimate

¹Estimate given by Mr. John Freeman, President, Lovell and Christmas, Evidence, Special Committee on Prices, p. 1419. This charge includes rent on storage space, insurance and interest on capital tied up in butter.

of net storage profits compares closely with the 11.2 cents per lb. profit shown by Canada Packers. Clearly those firms assuming the risk of price change on the 62 million lbs. of butter stored during this particular year were well rewarded for their enterprise.

The executives of the firms submitting cost accounts on their butter operations to the Special Committee were unanimous in admitting they had made "enormous" or "terrific" profits during the inter-control period. Thus, Canada Packers, as of February 25, 1948, showed an average into storage cost of 51 cents per lb.; an average out of storage wholesale selling price of 65.12 cents. From this gross spread of 14.12 cents are to be deducted average storage costs of 2.91 cents per lb. to give an average net profit of 11.23 cents per lb. At that date this firm still had 23,223 boxes of butter (56 lbs. each) in storage on which they would realize at least as high a net profit. This cost account for butter is summarized in Table 10.

Handling, as they do, very large quantities of butter, Canada Packers made a net profit of \$509,105,¹ on storage butter alone during that part of the 1947-1948 "storage year" ending February 25. These profits are also net of an imputed interest charge of six per cent on all capital employed in the storage department. These imputed interest charges for the use of capital owned by the firm are "washed out" in the annual financial statement by crediting them back as a receipt. This estimate of profit on the butter storage account is therefore low by six per cent of Canada Packers' equity in the capital allocated to this account.

The Company, as a whole, has shown very high earnings for the last three completed fiscal years. The profits after taxes on income were \$1,816,781 in 1946, \$2,059,644 in 1947 and \$2,182,300 in 1948.

TABLE 97
RELATION OF PROFITS TO SALES, BEFORE AND AFTER TAXES
PERCENTAGE RETURN OF NET PROFITS TO SHAREHOLDERS'
EQUITY^a, CANADA PACKERS', LTD.

1946-1948

(per cent)

Year	Percentage of Profits before Taxes on Income to Sales	Percentage of Profits after Taxes on Income to Sales	Percentage of Profits after Taxes on Income to Shareholders' Equity.
1946	2.21	.87	9.03
1947	1.84	1.01	9.73
1948	1.85 ^b	.91 ^b	9.76 ^b

^a Surplus on appraisals of \$5,663,432 has been included in the shareholders' equity.

^b After provision for inventory reserve of \$625,968.

Source: Canada Packers', Ltd. Annual Reports to shareholders, 1946, 1947, 1948.

¹Evidence, Special Committee on Prices, p. 1313.

It should be added that profits of this order on storage butter are extremely unusual. For the nine fiscal years (ending in March) preceding 1947-1948 Canada Packers made an average profit of 0.19 cents per lb. The highest return was 8.64 cents per lb. in 1941 and the lowest a loss of 4.82 cents per lb. in 1939. There were losses in six of the nine years and profits in three. The general experience of other firms storing butter has been similar to that of Canada Packers in this respect.

Canada Packers handles some 20-25 million lbs. of butter each year, of which total, some six million lbs. are manufactured in the firm's own creameries. If total net earnings attributable to butter are worked out on a per lb. basis for this total turnover, the average per unit net profit is much smaller than 11.2 cents earned on storage operations. On this basis, for the period 1929-1947, the firm averaged a net profit of 0.14 cents per lb. on all butter handled.

Mr. McLean, the President of Canada Packers, did not agree with the suggestion that his company, either alone or in combination with other firms, might have held butter prices below the market level and thus taken a smaller return for his company. He said in part:

"But suppose someone was to offer butter to the merchant or who ever bought a pound of butter—if we were selling it at 60 cents and everybody else was taking 68 cents, they would be on our doorstep for the butter, and every customer we had would feel and would claim that we had not given him his proper share of that type of butter, and our butter would be sold out in three weeks and the market would again be 68 cents."¹

Mr. McLean's point appears valid. Despite the fact that Canada Packers' butter sales average about 10 per cent of total sales of Canadian creamery butter, this firm could not, by itself, have stemmed the advancing level of butter prices during the fall and early winter of 1947. This does not, of course, mean that a firm controlling 10 per cent of total supply cannot, by its own actions, influence its selling price. It is difficult, or impossible, to determine by any means other than actual trial and error by how much such a firm may affect its selling price. Moreover if it can lower prices it can also raise them. This question of whether or not a firm can influence its selling price is, of course, quite distinct from that of whether or not it should do so.

Canada Packers could not increase the total supply of butter in the winter of 1947-1948 nor did it have any control of consumer demand for butter. These two factors were largely determining the retail price of butter. If, as Mr. McLean said, Canada Packers had sold below the market price the firm would have had more "would-be customers" than it could accommodate while the retailer would likely have widened his spread to take up the slack, and the consumer would have obtained no benefit.

The experience of other firms submitting cost statements was very similar to that of Canada Packers. Silverwood Dairies showed a gross profit of 12.64 cents per lb. and a net of 9.9 cents on its storage operations

¹Evidence, Special Committee on Prices, p. 1339.

TABLE 98
CANADA PACKERS LIMITED
ALL PLANTS
STORAGE BUTTER ACCOUNT 1947-1948

Week ending	In				Week ending	Out		
	Number boxes		Purchase price			Number boxes		Transfer at market price
	Week	To-date	Week	Average to-date		Week	To-date	
June 5	6,954	6,954	48.60	48.60	Nov. 12	5,079	5,079	58.22
12	12,998	19,952	49.00	48.89	19	5,045	10,124	59.36
19	8,685	28,637	50.06	49.25	26	6,106	16,230	60.41
26	8,096	36,733	51.20	49.66	Dec. 3	5,218	21,448	63.23
July 2	7,520	44,253	50.18	49.81	10	6,057	27,505	61.08
9	9,222	53,475	49.40	49.75	17	4,801	32,306	61.95
16	10,696	64,171	51.00	49.97	24	5,166	37,472	62.49
23	9,391	73,562	50.92	50.09	31	3,746	41,218	63.20
30	4,890	78,452	51.80	50.20	Jan. 7	4,537	45,755	63.69
Aug. 6	8,450	86,902	52.05	50.38	14	4,869	50,624	64.03
13	5,176	92,078	53.97	50.57	21	4,959	55,583	64.43
20	5,059	97,139	54.31	50.74	28	5,818	61,401	64.62
27	4,274	101,411	55.80	50.94	Feb. 4	5,611	67,012	64.79
Oct. 15	2,941	104,352	56.00	51.00	11	5,068	73,080	66.42
					18	5,045	77,125	66.50
					25	4,004	81,129	66.36
								66.42
								65.12
Average carrying charges (to March 1)					2.91			
Average cost to-date					53.91			

Source: Evidence, Special Committee on Prices, p. 1299.

during the storage year 1947-1948.¹ Swift-Canadian made 9½ cents per lb. Mr. Olive conceded that his firm, Olive and Dorion Limited, made a net profit on storage operations of about 11 cents per lb.²

In summary then, the evidence indicates, and the witnesses confirm the fact that their respective firms made "absolutely unprecedented" profits on storage butter during that period in which ceilings were not in effect. At the prevailing market prices, however, the supplies of butter available were flowing freely to consumers. Shortages became acute after the re-imposition of the ceiling and at the end of the storage year as storage stocks were becoming depleted.

An Examination of the Spread Between the Price of Butter and Butterfat

Firms storing butter were admittedly making large profits during the period of rising prices. The question arises as to whether creameries were able to widen the spread between the price which they paid for butterfat and the price which they received for their butter. Table 99 was assembled for the purpose of answering this question.

An effort is made to measure the processor's spread by deducting from the price which the creamery receives for its butter (the wholesale price) the price paid to the farmer for the 4/5 of a lb. of butterfat which each pound of butter approximately contains. Montreal wholesale butter prices and average prices received by farmers for butterfat in the province of Quebec are used for this calculation. The spread between the creamery's selling price of butter and the cost of the fat component of this butter shows no significant increase over the period with which we are concerned. The apparent widening of the spread in December of 1947 and January 1948 may be attributable to sampling errors in the estimates of the price received by farmers for butterfat. Prior to May the subsidy on butterfat reduced the cost to the creamery. Thus while the farmer received an average of 53 cents per lb. for butterfat in April the creamery paid only 43 cents and the government the remaining 10 cents.

Despite some rather wide fluctuations, the spread between wholesale and retail prices shows no evidence of having widened during this period. The farmer benefited from the increasing price of butter by a corresponding increase in the price which he received for his butterfat. True, he did not secure the increase in the inventory value of butter stocks unless he happened to belong to a co-operative which was holding storage stocks. The creameries, on the other hand, continued to manufacture and sell butter during the decontrol period for about the same gross margin as they had received prior to decontrol.

SUMMARY AND CONCLUSIONS

The retail price of creamery butter increased from about 45 cents in April, 1947 to approximately 73 cents in January, 1948 as a result of the removal of subsidies, ceilings and rationing in May and June, 1947, and the desire of consumers to purchase, at prevailing market prices, more butter than was available. The apparent increase in butter prices was greater than the actual increase. Before the first of May, the tax-

¹Evidence, Special Committee on Prices, p. 1570.

²Ibid., p. 1168.

TABLE 99
COMPARISON OF MONTREAL BUTTER PRICES AND PRICE RECEIVED BY FARMERS FOR BUTTERFAT
MARCH 1947—MARCH 1948

	Average Wholesale Price No. 1 Solids, Montreal ^a	Average Retail Price Creamery Prints, Montreal ^b	Spread Between Wholesale and Retail (cents per lb.)	Average Price Paid to Quebec Farmers for Butterfat ^c	Cost to Processor of 4/5 lb. Butterfat ^d	Gross Spread Between Wholesale Price of Butter and Price Paid to Farmers for Butterfat Component
1947						
March	40.0	45.4	5.4	52.3 (42.3)	33.8	6.2
April	40.0	45.4	5.4	53.0 (43.0)	34.4	5.6
May	48.5	54.1	5.6	52.0	41.6	6.9
June	49.75	55.1	5.35	52.8	42.2	7.6
July	49.875	55.1	5.225	53.0	42.4	7.5
August	55.25	55.2	-0.05	57.1	45.7	9.5
September	59.125	64.5	5.375	62.8	50.2	8.9
October	57.125	65.2	8.075	63.2	50.6	6.5
November	60.375	61.5	1.125	64.0	51.2	9.2
December	66.125	67.0	0.875	69.0	55.2	10.9
1948						
January	68.0	72.8	4.8	72.5	58.0	10.0
February	67.5	72.0	4.5	72.0	57.6	9.9
March	67.5	71.6	4.1	75.0	60.0	7.5
April	67.5	72.5	5.0	76.0	60.8	6.7

a) Daily quotations, Canadian Commodity Exchange.

b) Quotations by independent retail merchants

c) Basis f. o. b. farm. Prices for March and April include Dominion government subsidy of 10c per lb. Prices net of subsidy, paid by processor in parenthesis.

d) The minimum legal butterfat content of 1 lb. butter is 4/5 lb. butterfat.

Source: Evidence, Special Committee on Prices, pp. 1122 and ff.

payer was paying about $8\frac{1}{2}$ cents of the price of a pound of butter in the form of a subsidy to the producer of butterfat. The removal of the subsidy to the butterfat producer immediately increased the price to the consumer by an equivalent amount. The government recovered the increase in the value of stocks from those firms holding butter inventories at the time the subsidy was removed and the ceiling raised.

Most of those firms storing butter did not build up abnormally large stocks and hold them in an effort to raise prices. They accumulated butter during the heavy period of production and they sold this butter to the trade as production declined during the winter months. The possibility that the government might, at any time, step in and reimpose ceilings probably acted as a deterrent to any firms who might otherwise have been inclined to hold out for higher prices.

Consumers, now freed from rationing restrictions and equipped with an unprecedented volume of disposable income, wished to buy more butter than was available. The price began to rise thus serving the function of allocating the available supplies of butter to those consumers willing and able to pay this higher price. As consumers became aware of an impending shortage they attempted to protect themselves by resorting to "ice-box hoarding". This practice served only to increase demand and thus accelerate the rate at which butter prices were increasing.

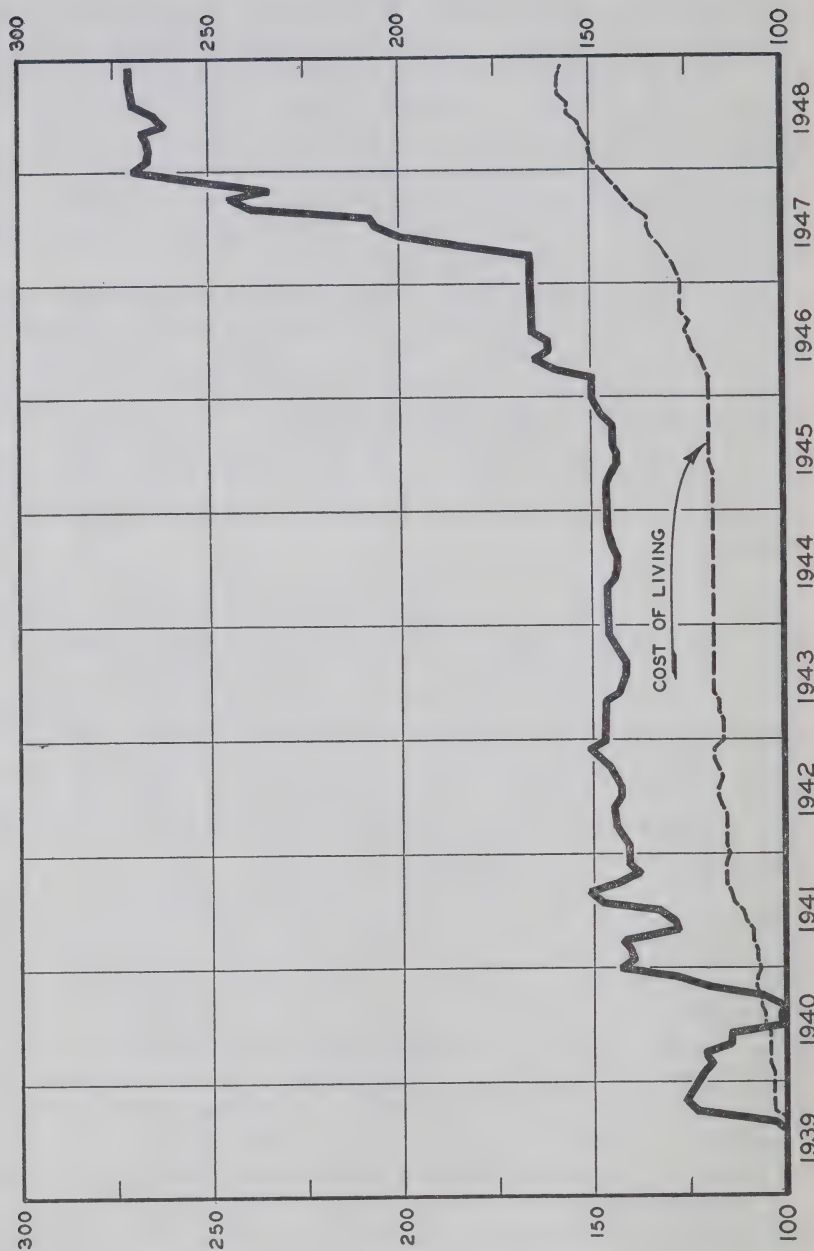
Although the dairy farmer's cost of producing butterfat did increase substantially as a result of the removal on October 22, 1947, of ceilings and subsidies on coarse grains, it was not this increase in cost which was primarily responsible for the increase in butter prices. Indeed the latter was well under way before feed grains were decontrolled. Cost determines price only insofar as it affects supply. While higher feed costs did exert some influence on the output of milk this factor would by itself have had a rather small total effect on the retail price of butter. The primary cause of higher butter prices was the release of a hitherto restrained consumer demand.

Under these circumstances those firms storing butter made "unprecedented profits" through no action of their own other than their normal one of storing butter in the summer for sale during the winter months. These net profits on storage butter were roughly 11 cents per lb. An examination of the accounts of those firms which appeared before the Special Committee on Prices shows that the average net profit on butter storage operations over a period of years has been less than one cent per lb. Firms have frequently incurred a loss on butter storage operations. These losses are either made up by profits in other years or offset by the profits of other enterprises which the firm also conducts.

Farmers received commensurately higher prices for their butterfat as butter prices advanced. They did not, of course, receive any part of the increase in value of the butter in storage unless they belonged to a co-operative which was holding butter. If prices had declined neither would they have incurred any loss on stored butter. The storage firms assume the risk of price changes during the storage period and in this particular year were handsomely rewarded for so doing.

CHART XI BUTTER RETAIL PRICE INDEX

(AUGUST 1939 = 100)



Source: Dominion Bureau of Statistics, Ottawa.

4

THE LIVESTOCK AND MEAT INDUSTRY

TO encourage a greater production of badly needed meats and to enable farmers to meet increased production costs, ceiling prices of meats were raised at intervals throughout the period of price control between December, 1941, and October, 1947, and the price of meat to Canadian consumers advanced proportionately.

In addition to price ceilings, the Dominion government exercised further controls over price and supply by means of export controls, first brought into force in April, 1942, and through the power to negotiate export contracts, the first of which was made on November 1, 1939. Although both price controls and export allocations were removed in September, 1947, the remaining power to negotiate export contracts left a substantial degree of control in the hands of the government.

The final removal, in August, 1948, of the embargo on beef and cattle exports to the United States, which had been in force since October, 1942, completed the decontrol of these products and resulted in a further sharp increase in both beef and cattle prices. We are primarily concerned here with sorting out and appraising the principal factors which were directly responsible for the increased price of meats during the period immediately following formal price decontrol in October of 1947.

NATURE OF THE INDUSTRY

Canada produces a surplus of meat over and above our domestic requirements. The export price of this surplus, which is shipped either as dressed carcasses or live animals, is an important determinant of the price of meat to the Canadian consumer. Although veal, mutton and lamb are almost always available over the retail meat counter, their production and consumption are small relatively to that of pork and beef. In 1947 the industry produced 2.3 billion pounds, dressed weight, of pork, beef, veal, mutton and lamb. Pork and beef each accounted for, roughly, one billion pounds of this total; veal 154 million pounds and mutton and lamb 66 million pounds. In view of the relative importance of beef and pork as compared with other meats, the inquiry of the Special Committee was largely restricted to the extent and causes of the increased price of beef and pork to the consumer.

The average domestic per capita consumption of the four meats in 1947 was as follows: beef, 68 pounds; pork, 53 pounds; veal, 10 pounds; and mutton and lamb, five pounds. Canadians also ate five pounds of canned meat. The total per capita consumption of all meats during the year was 146 pounds as compared with an average consumption of 118

pounds during the 1935-1939 period.¹ This 28 pound increase in per capita consumption, combined with 12 per cent increase in population since 1939, adds up to a substantial over-all increase in the domestic disappearance of meat. Canadian farmers have nearly doubled their output of livestock since 1939 and this increased production has permitted the above increase in domestic consumption and, in addition, a doubling in the volume of exports.

Traditionally Canada has exported about 10 per cent of her total marketings of beef cattle, either as beef or live animals. In September, 1942, an embargo was placed upon the export of all livestock and red meats to the United States and our exportable surplus of beef was shipped to the United Kingdom. With the removal of this embargo in August, 1948, Canadian cattle, calves, beef and veal, have again moved into the United States in large volume. The best market for our bacon hogs continues to be the United Kingdom. Roughly 25 per cent of our marketings of hogs are sold, as Wiltshire sides,² to the British Ministry of Food through the agency of the Canadian Meat Board, under the terms of an inter-governmental export contract.

The livestock and meat industry may, for purposes of analysis, be conveniently divided into three phases. The first is the primary production of livestock on the farm, ranch and feedlot; the second is the killing of the live animal and its subsequent processing and distribution by the packing firm, and the third, the retail distribution of these meat products to consumers.

Primary Production of Livestock

Hogs and beef cattle are raised on farms from coast to coast in Canada.

Hogs

The areas of specialized hog production are in the St. Lawrence lowlands, including the Ontario peninsula, and in the parkbelt of the Prairie provinces, particularly that area between Edmonton and Calgary. Hog enterprise on most farms is relatively small, and is often complementary to the production of cream, cheese, grain or beef cattle. The production period for hogs is shorter than for most other kinds of livestock. The gestation period is about four months and another five to seven months are required to bring the pig to a market weight of from 200 to 225 pounds.

The marketing pattern for hogs exhibits a marked degree of seasonal variation. Sows intended to farrow in the spring are usually bred in December or early January and the pigs, born in late April or May, will come to market during the following November and December. A smaller crop of fall-farrowed pigs is marketed in March and April of the following year. The peak marketings, therefore, normally occur in November, December and early January with a lesser peak in March,

¹Dominion Bureau of Statistics, Ottawa.

²A Wiltshire side is a cured one-half hog carcass with head, feet, backbone and shoulder blades removed.

April and early May. Price normally displays a seasonal variation opposite to that of marketings. When hogs come to market in volume in the late fall and early spring, prices are at a seasonal low. During the summer and early fall, when marketings are light, prices are at a seasonal high.

This seasonal variation in hog prices performs a useful function in that it tends to encourage farmers to plan their breeding program in such a way as to have hogs ready for market when marketings are low and prices are at a seasonal high. Since it costs more to produce hogs at these off seasons, some increase in price is necessary if production is to be evened out over the year. This seasonal variation in hog prices has practically disappeared since export contracts with the United Kingdom for Wiltshire sides have been in effect. The contract price is a flat one and it therefore pays farmers to produce hogs at that season when production costs are lowest. This flat price tends to aggravate the difficulty of making regular export shipments throughout the summer months.

The supply of hogs coming to the market varies not only with the season of the year but also with breeders' expectations, at breeding time, as to the probable relationship which will prevail between the price of hogs when they are ready for market and the price of grain during the feeding period. The cost of feed grain is an important part of the cost of producing a hog, making up from three-fifths to three-quarters of the total cost. This relationship between hog prices and feed grain prices is usually expressed as a ratio between the price of hogs and the price of barley, known as the barley-hog ratio.¹ The supply of hogs, and therefore the price of pork products, varies with the price of feed grains. When we begin to seek the factors responsible for the increase in the price of pork we shall, for this reason, also have occasion to examine the factors determining the price of feed grains.

There are other significant factors in the supply of hogs. These include the prices of other farm crops, particularly grains in western Canada, even though these other crops are complementary to, rather than competitive with, hogs in farm operation. Many farmers in the Prairie provinces appear to reduce their hog enterprises whenever either the price or yield of grains increases. The effect on production seems to be through income. Many areas in the brown and dark brown soil zones of the Prairies are not too well suited for hogs, in that water is difficult to secure and forage crops hard to grow. These areas are best suited to the growing of cereal grains and, if farm income increases, farmers are not willing to put forth the additional effort required to market their grain through hogs rather than through the elevator.

Beef Cattle

The production of beef cattle is centred in that part of the Ontario peninsula bordering Georgian Bay and in central and southwestern

¹Specifically the barley-hog ratio is the number of bushels of No. 1 Feed barley, at Winnipeg, equal in value to 100 lbs. of live B-1 hog, also at Winnipeg.

Alberta. Although specialized cattle farms, or ranches, are located in these areas, many farms in all agricultural areas produce and sell a few head of beef cattle every year. On the small, general purpose farm the same herd may be kept for the production of both beef and milk. The calves are weaned off the cows and fed on skim milk until they are big enough to eat grain and roughage. Beef cattle are produced under range conditions in southern Alberta, south-western Saskatchewan, and in the Nicola Valley and the Cariboo country of British Columbia. Many of these ranch units are large; they may "run" anywhere from 100 to 10,000 head of cattle. Perhaps 10 per cent of the beef cattle marketed in the Prairie provinces is raised under range conditions; the rest come off the farms.

The cattle coming on to the market in Canada are of two types, grass-finished and grain-finished. The grass-finished cattle are, as the term suggests, directly off the grass; the grain-finished cattle have been fed grain and protein concentrates in a feedlot for a period of one to six months. Many of these fed cattle are finished in Ontario although much of the grain and many of the feeder cattle will have been shipped into the province from the west. The return to cattle feeders, and hence the supply of fed cattle, depends upon the spread between the price of feeder and fat cattle and also upon the relationship between the price of fat cattle and feed grain. Since many cattle are sold off the grass there is not as close a relationship between beef supplies and the price of grain as in the case of hogs. Moreover the production period for beef cattle is from two to three years as compared with nine to 11 months for hogs. The producers of grass cattle cannot know at the time they formulate their production plans what price they will receive for their cattle when the latter are ready for market.

There is a seasonal variation in both the marketings and price of beef cattle. Marketings are seasonally high in October and November and low through the summer months. Prices, on the other hand, are seasonally low during the fall and high during the summer. Some of the ceiling price orders in effect on beef during the war years took cognizance of this variation and permitted a higher price during the summer months.

The Marketing of Livestock

Farmers usually have some choice as to the way in which they will market their livestock. They may consign their hogs or cattle to a commission agent located at a public stockyard who will sell them as advantageously as possible. Secondly, they may sell directly to a buyer for a packing firm. Many farmers also sell to independent drovers who, in turn, re-sell either at the yards, or directly to a packer. The drover finances his operations, assumes risks of changing prices, and attempts to secure as wide a margin between his buying and selling prices as is consistent with the maintenance of the goodwill of those from whom he buys. Local butchers also buy livestock directly from farmers and kill in their own small slaughterhouses. Many butchers are now buying more

of their meat from the packing houses, if they are located close enough to the plant to make delivery economically feasible. Packers can frequently afford to sell a carcass to an independent butcher as cheaply as the latter can do his own killing since the packer is able to utilize the by-products more effectively.¹ In 1947, approximately 80 per cent of the hogs, 40 per cent of the cattle, 45 per cent of the calves and 60 per cent of the sheep and lambs marketed commercially, were sold directly to packers.

The grading regulations for hogs differ from those in effect for other kinds of livestock. Hogs are not graded as live animals, but rather as carcasses. This system of carcass grading is known, in the trade, as "rail grading". The payment to the farmer is made on the basis of this grade. On the other hand, market prices for cattle are quoted in terms of a grade on the live animal such as "choice", "good" or "medium". This grading is not done by a government grader. However, beef is graded "on the rail", that is, the carcass is graded, by a government grader. This grading is done on a voluntary basis and is designed to assist consumers. The main grades are, in descending order "red brand", "blue brand", "commercial", etc. Sales of cattle are not made on the basis of the rail grade, however, and there is no exact correspondence between the grade of the live animal and that of the carcass. Most "good" steers will yield blue brand carcasses but a few will yield red brand or commercial carcasses. The grading regulations for cattle, calves, sheep and lambs are, therefore, much less exact than those for hogs. Although market news is sufficiently well publicized to keep farmers informed of stockyard prices for certain "grades" of live animal, the primary producer cannot be sure of the grade into which his own stock will be classed.

The grading system also appears unnecessarily complex in that the Department of Agriculture has an alternative set of beef carcass grades; while Wiltshire sides are sold on the basis of a different grading system than that applied to hog carcasses.

The Processing-Distributing Industry

The processing-distributing industry contributes an important part of the final value of meat products. Although no statistical data on the share of the consumer's dollar received by the packer are available in Canada, a study in the United States, for the year 1939, shows the packer to have received about 20 per cent of the total retail value of meat including edible by-products for performing the various functions of slaughtering, processing and distributing.² This percentage return to the packer will probably be considerably less now than in 1939, although the absolute margin taken by the packer will be higher, since, as livestock and meat prices rise, the farmer receives an increasing percentage of the retail price, while the packer and retailer receive a decreasing percentage.

The principal services contributed by the processing-distributing industry are to slaughter livestock, process and store the meat, utilize

¹Evidence, Special Committee on Prices, p. 2481.

²United States Department of Agriculture. Technical Bulletin No. 932, January, 1947.

the by-products and, finally, to distribute the meat products to the retail trade, or to ship them for export. The larger packers process a sufficient volume of livestock to enable them to utilize effectively all by-products. For this reason the large plants are able to process livestock more cheaply than small plants which are not able to make use of all the by-products. Beef for the domestic market is not, as a general rule, held in the cooler for more than five or six days after slaughtering. The maximum, for the "ordinary trade" is about two weeks.¹ It is then delivered to the retail outlets in the form of sides or quarter carcasses.

Hog carcasses are handled in different ways, depending upon whether or not they are to be sold on the domestic market, or consigned to the Meat Board for export. Relatively few carcasses are sold as such to retailers for the fresh meat trade. Carcasses for domestic use are cut up by the packer. The various cuts receive varying degrees of processing. Some, such as the loin, are sold fresh; others, such as bacon and ham, are smoked and cured. The packer may further process his bacon by slicing, removing the rind, and wrapping in half-pound packages.

Most packing firms use cold storage warehouses to hold fresh meat over short periods of time, and to hold frozen carcasses and cuts from the period of seasonally heavy production to the period of relative scarcity. Although heavy livestock marketings occur in the autumn and early winter months, consumers require meat all year round. It is true that people may not eat as much meat during the summer months as they do during the winter. But the heavy influx of tourists in the summer does add appreciably to demand.

Thus, one of the functions of the processing industry is to carry, in warehouses, frozen meat from the season of plenty to the season of scarcity. The quantities of meat held in storage will depend upon packers' estimates of the prospects of recovering, at the later date, at least the original cost of the meat plus storage and handling charges. This is usually possible since, with lighter marketings during the summer, prices tend to be higher than during the period of heavy marketings.

In assessing the effects which the larger packing firms may be able to exert upon the price of their own product, the fact that Canada Packers' and Swift Canadian's combined stocks of all pork and frozen beef during 1947 were frequently more than 50 per cent of total storage holdings may be significant.

In selling meat to the retailers the packers accept telephoned orders and also send their salesmen out to contact the retailers and to take orders for meat. This meat is not offered at a standard price; the salesman bargains with each retailer as to the price of the product which the latter wants. This price making process will be analyzed in greater detail when we come to examine the factors determining the price of meats.

The representatives of the various packing firms which appeared before the Special Committee on Prices occasionally stated their belief

¹Evidence, Special Committee on Prices, p. 2715.

that the packing industry is highly competitive. One of the arguments which they advanced in support of this contention was the large number of persons or firms purchasing livestock on the various markets across Canada. One characteristic of the market which destroys much of the force of this argument is the high percentage of all purchases which are made by the three largest firms, Canada Packers, Swift Canadian, and Burns. Canada Packers included a table in their brief showing the percentage of the total inspected slaughterings of livestock which they killed.¹ Since other firms did not submit these data, Table 100 has been compiled to show the proportion of total inspected kill made by each of the four largest firms, during the period August, 1947, to February, 1948. Although the periods, on which data were available for the various firms, do not correspond exactly, the estimate of each company's share of the market is sufficiently accurate for our purpose.

TABLE 100

PROPORTION OF TOTAL INSPECTED, DRESSED WEIGHT OF BEEF AND PORK
PRODUCED BY FOUR FIRMS, AUGUST 1947—FEBRUARY 1948

(millions of pounds)

Company	Period	Beef		Pork	
		Amount	Per cent of total	Amount	Per cent of total
Canada Packers Ltd.	Aug. 15/47—Feb. 25/48	119.6	30	126.0	27
Swift Canadian Co. Ltd.	Aug. 1/47—Feb. 28/48	89.7	23	95.3	20
Burns & Co. Ltd.	Aug. 14/47—Feb. 25/48	50.0	13	64.6	14
Wilsil Ltd.	Aug. 10/47—Feb. 21/48	8.5	2	12.2	3
Total for four companies		267.8	67	298.1	64
Dressed weight of total inspected kill	Aug. 10/47—Feb. 21/48	397.1	100	466.4	100

Source: Dressed weight of total inspected kill calculated by multiplying inspected slaughterings by average dressed weights of cattle and hogs for 1947. These data are from the Livestock Market Review. The data for each firm were extracted from their respective submissions to the Special Committee on Prices.

Canada Packers' own calculation for the calendar year 1947 shows that firm to have killed 28 per cent of the inspected kill of cattle and 27 per cent of hogs. These data check closely with our estimates of 30 and 27 per cent for a shorter period as shown in Table 100.

Canada Packers, Swift Canadian and Burns handle roughly 65 per cent of the total inspected kill of cattle and 61 per cent of the inspected kill of hogs. These shares are not as high a percentage of total kill since some 36 per cent of the output of all meats was processed in non-inspected plants in 1947. In a number of the principal livestock markets, however, the share of the inspected kill handled by one or more of these large firms may be much larger. The Special Committee did not attempt to study these individual markets.

¹Evidence, Special Committee on Prices, p. 2701.

The Retail Industry

The third and final operation in the processing and marketing of meat is performed by the retailer. Retailers provide a variety of services, ranging from the cutting of carcasses into roasts, steaks and chops, the provision of credit and delivery services in some instances, to the display and sale of half-pound packages of bacon which have been sliced and wrapped by the packer. The retailer's margin includes compensation, not only for the performance of this variety of services, but also for losses in the weight of product in cutting, trimming and boning and from shrinkage attributable to loss of moisture while meats are held in cold storage. For all of these services retail meat dealers normally charge from 20 to 30 per cent of the retail price of the meat which they sell. It should be noted that retailers, as a group, consider the extra trouble of quoting mark-ups on their selling price, rather than on their cost price, to be worthwhile. To anyone accustomed to thinking of a percentage mark-up on cost price, this practice makes retailers' margins appear considerably smaller than they are. A mark-up of 20 per cent on the selling price is equivalent to one of 25 per cent on cost price while a mark-up of 25 per cent on selling price is equivalent to one of 33 1/3 per cent on cost price.

The data on retail mark-ups submitted by officials of the Wartime Prices and Trade Board indicate that the retailer was, during the early period of price control, receiving a margin equal to about 25 per cent of his selling price. The maximum mark-up permitted to the retailer on carcass beef, costing 19½ cents per pound, was seven cents in the Prices' Board order of July, 1946. Mr. F. S. Grisdale, Co-ordinator of Foods, Wartime Prices and Trade Board, reported that, during the course of the survey carried on by the Prices Board prior to the establishment of this maximum mark-up, retail margins varying from two to 12 cents per pound were found.¹

In answer to the question, "Do you say there is more competition in the retail end of the meat industry than there is in the packing end of the industry?" Mr. Hales, National Director of the Retail Meat Dealers Association, replied, "My answer to that would be yes. I think we in the retail field experience a very much higher degree of competition."²

There is evidence to substantiate Mr. Hales' argument. There are thousands of individual meat retailers, each of whom handles only a very small proportion of total sales. The degree to which any one of them can influence the price which he receives for his product would appear to be very slight. The entrance of such new and efficient competitors as the chain stores and super markets into the retail meat field may serve to reduce further the retailing margins which now prevail. Table 101 is included here to show a comparison between the retail prices at which Loblaw Groceries Ltd. sold fresh loins of pork during late 1947 and early 1948, together with its mark-up, and the average retail prices and

¹Evidence, Special Committee on Prices, p. 2464.

²Ibid., p. 2486.

mark-up, as secured by the Regional Offices of the Wartime Prices and Trade Board. However, one cannot make too strong a conclusion from data concerning one cut of meat only.

TABLE 101
LOINS OF PORK
COMPARISON OF AVERAGE RETAIL MARGIN, TORONTO, WITH MARGIN OF
LOBLAW GROCETERIAS, LTD.
(cents per pound)

	Average Wholesale Prices, Toronto	Average Retail Prices, Toronto	Average Per Cent Mark-up	Loblaws Cost	Loblaws Selling Price	Loblaws Per Cent Mark-up
1947						
Oct. 30	36	47	23.40	36	48	25.00
Nov. 13	35½	47	25.00	34	45	24.25
1948						
Jan. 12	44½	57	22.00	42½	55	22.75
Jan. 26	44½	59	24.50	42½	55	22.75
Feb. 10	44	57	23.00	42½	47	9.57
Feb. 24	44	58	24.00	42½	47	9.57
Mar. 2	44	54	18.50	43	48	10.50
Mar. 9	44½	52	14.00	43	48	10.50
Mar. 16	44½	52	14.00	43	48	10.50
Mar. 30				45	51	11.75
Apr. 3				45	51	11.75
Apr. 10				45	53	15.00
Apr. 17				45	53	15.00

Source: Average prices supplied by Wartime Prices and Trade Board, Loblaw Groceterias Ltd., prices from Evidence, Special Committee on Prices, p. 2497.

Retailers, knowing what they have paid for a carcass of beef, establish an initial sales price for each cut which the carcass yields. If any particular cuts fail to move at this price the price will be reduced while the price of other cuts will, if possible, be increased.¹ As a result of higher pork prices resulting from the new and sharply increased export prices specified in the British bacon contract which became effective early in January, 1948, Loblaws appear to have found it necessary, at times, to halve their usual margin in order to move pork.

The extent to which margins were reduced varies with the product. Table 101 shows a sharp reduction in the percentage margin on loins of pork; a comparable reduction was made in the margin on smoked hams while the percentage margin on beef was not reduced.² Retailers apparently vary the margin on various kinds of meat and on different cuts according to the elasticity of consumer demand for that kind or cut. If consumers will buy approximately the same quantities of any particular cut, even though the price has been raised a few cents per pound, the price of that cut will be raised. Conversely, if by so doing sales can be greatly increased, the price of some other cut may be lowered.

¹Evidence, Special Committee on Prices, p. 2510.

²Ibid., p. 2498.

It would appear that the purchaser of bacon, for example, is subsidizing the buyer of other types of meat. In other words, the retailer places a higher mark-up on bacon in order to cover the losses, or lower margins on other cuts. This procedure seems somewhat inequitable from the consumer's point of view.

The answer appears to be that the retailer attempts to keep his price on each cut as high as he can and still keep that cut moving. The price established for each cut tends toward a competitive, equilibrium price.

Although the reduced margins on any cut may leave retailers less than the average total cost of selling these particular cuts, including an allocated share of fixed overhead costs, they may still have been in excess of marginal retailing costs and hence cover a part of overhead costs. Although cost accountants do not set their accounts up in a way which will yield such information, this situation may account for retail firms continuing to sell at such a reduced mark-up as those found in Table 101.

The above hypothesis is borne out by the emphasis which Mr. W. W. Hussy, Director, Toronto and Ontario Branches, Retail Merchants Association, placed upon the proportion of total retailing costs which are fixed, with the consequent necessity of a high volume of sales to reduce unit costs.

One point which was raised repeatedly during the hearings on retail margins was the effect upon price, of the eight per cent dominion sales tax on smoked and cured meats such as bacon and hams. It was suggested that the retailer adds his percentage mark-up to his cost price, which includes the sales tax, with the result that the tax would, in fact, be more than eight per cent by the time the product reached the consumer. This in effect is the general argument used against the imposition of sales taxes at the early stage of processing.

The actual incidence of the sales tax is not easy to determine but we believe it is divided among the producers, processors, retailers and consumers of meats. The price to the consumer will probably be higher with the tax than without it, but this differential will be less than the tax itself. Consumers will also buy less meat with the tax in effect because of the higher price. This reduced volume will lower the profits of retailers and packers. The price which the latter will pay the farmer will, in turn, be reduced since the packer's offering price for livestock is derived from the price at which he can sell carcasses to the retailer.

If retail margins appear high, both absolutely and as a percentage of retail price, there is no evidence that these high retail margins are the result of imperfect competition among retailers. It does not follow, of course, that retail margins could not perhaps be reduced through improvements in retail practices. Comparatively little research along these lines has been carried out in Canada. A necessary first step would be the calculation of the share of the consumer's dollar received by the farmer, the processor-distributor and the retailer. This type of information would indicate those areas in which reductions in marketing costs might prove most significant.

PRICES GENERALLY AND WARTIME CONTROLS

The total demand for meat is a composite of the domestic demand and the export demand. The demand of domestic consumers for meat is a function of their disposable income,¹ the strength of their tastes for meats, as compared with such substitutes as fish, poultry, eggs, and cheese, and finally the relative price of meats and these meat substitutes. Perhaps the most influential of these various factors is consumers' income. Consumers ate 14 per cent more meat in 1947 than they did in 1939 although the price of meat had more than doubled by 1947. The explanation is to be found in the fact that in 1947 consumers had \$2.25 to spend for every dollar which they had to spend in 1939.

The first export contract for the sale of Wiltshire sides to the United Kingdom came into effect on November 1, 1939. The price specified was \$18.00 per cwt. for grade A Wiltshires, f.a.s. Canadian seaboard. A minimum quantity of 291 million lbs. was contracted for but there was no maximum. This contract automatically placed a floor under the price of pork in Canada, since packers would not sell on the domestic market for less than they could get by exporting. The Canadian consumer had either to pay the equivalent of the export price for pork or do without. On the other hand, the domestic price could not rise above the export price unless Canadians wished to consume more pork products than were being produced in Canada, or the Meat Board restricted the supply available to domestic consumers by allocating export quotas to the packers. Export quotas were eventually adopted and ceilings imposed on pork at the wholesale and retail levels. We find that export prices are still determining the domestic prices of both pork and beef.²

Let us now consider the factors affecting the supply of meat. Supply is discussed only with reference to a particular period of time. In the very short run, supply can be varied within much narrower limits than is possible over a longer period. Once hogs, fed cattle or lambs are ready for market, the producer is likely to find that holding them costs him more than he stands to gain. Similarly once a retailer receives a stock of meat he must sell it within a fairly short period of time or be prepared to accept losses resulting from deterioration. The packer can vary his supply somewhat more readily by either adding meat to, or withdrawing it from his frozen storage. One of the costs involved in this operation is the differential in price in favour of fresh, as compared with frozen meat.

The relative prices which farmers expect to receive for products which are alternatives in their production program and also the expected price of inputs exerts an important effect upon the supply of some classes of livestock over a period of time greater than one production period. We have seen that the barley-hog ratio at any given time may have an important effect upon the quantities of hogs marketed a year or a year and a half later. Similarly an increase in Prairie farmers' incomes from

¹Net income after the payment of income taxes.

²Autumn of 1948.

other enterprises may cause a contraction in their output of hogs. For these reasons the price of bacon in Toronto is partly determined by the price of barley, or even of wheat, in Winnipeg.

We propose to refer here, very briefly, to some of the salient features of the price control program, as it applied to hogs, beef cattle and feed grains. This sketch is intended only as a background to the study of policies which permitted the rising pork and beef prices of 1947 and 1948.

Pork

We have outlined the terms of the first export contract for hogs in 1939. The price was \$18.00 per cwt. Seven successive contracts were negotiated, covering the period up to December 31, 1948, and for varying quantities and, with the exception of one year, at ever increasing prices. A price of \$36.00 per cwt. was specified in the contract for 1948. During 1947 the contract price had been twice increased—from \$25.00 to \$27.00 per cwt. on January 11, 1947, and from \$27.00 to \$29.00 on September 3, 1947. On January 1, 1948, the price was again raised to \$36.00 per cwt. The 1948 contract for 225 million lbs. was not completely filled, indicating that the consumer in Canada competed with the consumer in the United Kingdom for his share of Canadian bacon. An increase in the price of Wiltshire sides from \$25.00 to \$36.00 in these two years tells the story of higher pork prices in Canada in 1947 and 1948. These increased prices for Wiltshire sides were reflected back to the farmer by way of higher prices for his hogs. Table 102 contains these average prices for the 1941-1948 period. Although farmers received correspondingly higher prices for their hogs as contracts were renegotiated, there may still have been an opportunity for packers to make substantial gains on pork inventories as higher contract prices came into effect. This possibility will be examined later.

Although export contract prices determined the price of pork in Canada the consumer might well ask if such high contract prices were necessary. If the price had not been raised by \$7.00 per cwt. on January 1, 1948, would farmers have produced enough pork to satisfy the demands of Canadian consumers at this price and to meet our minimum export commitment? Mr. L. W. Pearsall¹ answered this question as follows:

"I think it is reasonable to assume that if there had not been a very substantial increase in the export price—at the same time I am not going to say whether it should have been \$6 or \$7—if there had not been a very substantial increase in the pork price it would have been reasonable to assume there would have been a very drastic and sharp reduction in hog production which would have affected our supplies in 1948 and 1949. Now, whether it would have the same effect on our supply of beef to a point where we would not have had a surplus for export or not, that would

¹Chairman of the Meat Board and Assistant Director, Marketing Service, Dominion Department of Agriculture.

TABLE 102
MONTHLY AVERAGE PRICE PER CWT. OF B-1 DRESSED HOGS^a AT TORONTO
1941-1948
(dollars per cwt.)

	1941	1942	1943	1944	1945	1946	1947	1948
January	11.08	15.31	16.86	17.11	17.63	18.80	21.71	28.10
February	11.26	15.16	16.91	17.11	17.46	18.67	21.38	28.31
March	11.33	15.29	17.16	17.18	17.80	17.73	21.38	28.69
April	11.27	15.19	16.73	17.18	17.47	19.35	21.63	28.42
May	12.14	15.26	16.78	17.20	17.62	19.86	21.60	28.72
June	13.46	15.49	16.78	17.21	18.50	20.82	21.65	30.14
July	14.62	15.85	16.84	17.33	19.21	20.90	22.01	30.91
August	14.62	16.11	16.85	17.43	18.70	21.15	22.53	33.28
September	14.65	15.60	16.79	17.42	17.93	20.42	22.81	32.88
October	14.78	16.38	16.75	17.27	17.32	19.87	22.09	31.48
November	14.78	16.44	16.92	17.24	17.37	20.17	22.60	30.35
December	14.89	16.63	17.10	17.63	17.80	20.80	22.78	30.70
Yearly Average	13.26	15.69	16.87	17.25	17.90	19.85	22.04	30.16

^a B-1 is the second highest hog grade. More Canadian hogs are graded B-1 than any other grade.
Source: Department of Agriculture, Markets Information Section.

be a debatable point; but it certainly would have brought about a reduction of supply.”¹

During the war the Dominion government encouraged farmers to expand their output of hogs. The primary means used to accomplish this objective was to improve the relationship between the price of hogs and the price of feed grains. Price ceilings were placed on oats and barley in December, 1942, and January, 1943. Higher than ceiling prices were permitted to producers of these grains in the Prairie provinces through the payment of the so-called “equalization payments”. In effect the Wheat Board exported oats and barley to the higher priced American market and pro-rated its net profits back to the producers of these feed grains. Freight assistance payments were instituted covering the freight charges on western grains and millfeeds moved from Fort William and Port Arthur to eastern Canada for feeding purposes. Since our export outlets for wheat on the European continent had been cut off farmers were paid to divert crop acreage from wheat to oats and barley. Finally marketing quotas were imposed on wheat while a subsidy of 25 cents per bushel was allowed to eastern feeders on feed wheat.

The combined effect of these policies was to raise hog production to the point where the Meat Board was able to export in excess of 600 million lbs. of bacon to the United Kingdom during each of three successive years, 1942, 1943 and 1944. Our exports under the first agreement in 1939 had been 331 million lbs. The great expansion in output occurred in the Prairie provinces. For a time Alberta produced more hogs than Ontario. Once the markets for wheat began to open up again and Prairie farmers who grew coarse grains and wheat realized that they received no subsidies on the coarse grains and feed wheat which they fed to their hogs, their enthusiasm for pig raising waned.² In 1946 Canada exported only 226 million lbs. of bacon to the United Kingdom.

Declining marketings pointed up the necessity for higher hog prices if even a moderate level of exports was to be retained over and above domestic consumption. Meat rationing at the consumer level had been dropped on March 27, 1947. A strike of packing house workers tied up the major processing plants from August 27 to October 22, 1947. Although the contract price for Wiltshire sides had been increased from \$27.00 to \$29.00 per cwt. on September 3, this increased price was not carried back to the farmer because those firms able to process hogs did not have to pay a higher price to get them. There was, in fact, a large backlog of hogs awaiting processing on which the owners were losing money because of feed costs and loss of grade as the hogs became overweight.

¹Evidence, Special Committee on Prices, p. 2461.

²A farmer holding a delivery permit from the Canadian Wheat Board could not buy feed wheat at the reduced price allowed to feeders. If he fed his own wheat or coarse grains he must place the same price on it as that which he could receive at his elevator. Only the farmer in eastern Canada, or the western farmer who grew no grain, was able to buy subsidized grain for feed. Since most hog producers in the Prairie provinces are also grain farmers, many of them expressed their resentment at what they considered a discriminatory policy by getting out of hogs.

On October 22, just as the strike ended, the Dominion government removed the ceilings and subsidies on coarse grains and also the ceilings on meats. Since export controls were left on meats and grains, and since the export contract for Wiltshire sides virtually determined the price of pork, there was no increase in domestic hog prices. The latter were still below their normal level in relation to export prices. There was, however, an immediate and substantial increase in the price of feed grain to the feeder in eastern Canada. The price of barley, net of subsidy, to the eastern feeder increased from about 68 cents per bushel, basis in store Fort William, to about \$1.25 per bushel. Oats increased from about 55 cents to approximately 85 cents per bushel. The price of millfeeds also increased by about \$10.00 per ton. Freight assistance payments were continued and are to remain in effect until, at least, July 31, 1949.

An increase of about \$4.00 per cwt. in the price of Wiltshire sides would have been necessary to restore the relationship existing between the price of hogs and the price of feed grains prior to the decontrol of the latter. Now given the benefit of hindsight, we can see that even an increase of \$6.00 per cwt. did not serve to call forth enough hogs to meet our revised bacon contract of 225 million lbs. in 1948.¹ The higher price looked too high to many consumers and they bought beef instead of pork, at least until the diverted demand had also raised the price of beef. Although the new contract price made the price of hogs very favourable relatively to the price of feed grains, it has proved sufficient only to check the decline in hog production. The available evidence strongly supports Mr. Pearsall's statement that,

"if there had not been a very substantial increase in the pork price it would have been reasonable to assume there would have been a very drastic and sharp reduction in hog production which would have affected our supplies in 1948 and 1949."

Beef

Price ceilings imposed on beef at the time of the first general price control order of December 1, 1941, were revised upwards several times prior to their final removal on October 22, 1947. These ceilings were imposed at both the retail and wholesale levels; no attempt was made to apply ceilings on the price paid to the farmer for his livestock. So long as the processing firms observed the wholesale ceilings these ceilings were reflected in the price paid to farmers for live cattle. At least one of the large packers alleged that smaller firms, by selling beef above the ceiling, were able to outbid them for cattle when cattle were scarce. An official of Canada Packers claimed that, for a time in 1946, in order "to stay in business", the firm paid one or two cents more for cattle than they could afford to pay and not lose money on the beef.²

¹The original contract called for 195 million lbs. It was revised upward in September when the beef contract was cancelled as a result of the opening of the United States market.

²Evidence, Special Committee on Prices, pp. 2144, 2176.

Canada's market for surplus live cattle has been the United States. In 1942, however, beef cattle were in short supply and, in order to enable Canadian packers to secure cattle at prices consistent with the wholesale ceiling, exports to the United States were brought under control, at first by licence, and finally on September 1, by an outright embargo. Domestic demand for limited supplies of beef kept prices in Canada at ceiling levels, especially since there were restrictions on the domestic consumption of pork; restrictions which were enforced by means of export quotas assigned to packers. Rationing of meats at the consumer level was adopted on May 27, 1943.

A number of sales agreements for beef were concluded with the United Kingdom. In all, four agreements were negotiated, although the first covered a period of two years, from January 1, 1944, to December 1, 1945. The quantities shipped to the United Kingdom steadily diminished from an average of 175 million lbs. for the first two years to 15 million lbs. in 1948. The contract price advanced from \$22.75 per cwt. for red brand carcasses, f.o.b. Canadian seaboard in the first agreement to \$27.50 for the last one in 1948. Prior to their complete removal in October, 1947, ceilings were raised each time a new and higher export price was agreed upon. A fairly good picture of the trend of beef and cattle prices since 1941 can be obtained from Table 103 which gives the average monthly prices of good steers at Toronto.

TABLE 103
AT TORONTO
MONTHLY AVERAGE PRICES, GOOD BUTCHER STEERS
UP TO 1050 POUNDS
1941-1948
(dollars per cwt.)

	1941	1942	1943	1944	1945	1946	1947	1948
January	8.37	9.35	11.36	11.78	11.37	11.88	13.36	15.21
February	8.58	9.71	11.64	11.76	11.26	12.10	13.98	15.29
March	8.62	10.00	11.77	11.68	11.54	12.12	14.24	15.44
April	8.58	10.36	11.75	11.61	11.90	12.28	14.66	16.44
May	8.61	10.91	11.79	11.78	12.31	12.60	15.05	17.94
June	8.78	12.44	12.40	12.04	12.57	13.89	15.28	20.79
July	8.71	10.63	12.53	11.71	12.12	13.22	14.47	21.01
August	8.79	9.94	11.92	11.10	11.70	12.54	14.02	22.42
September	8.95	10.45	11.28	11.04	11.03	12.35	13.92	21.75
October	8.81	10.05	11.06	10.51	10.56	12.28	13.70	21.07
November	8.63	10.16	11.19	10.63	10.70	12.37	13.51	21.10
December	8.90	10.89	11.68	11.04	11.60	12.61	14.19	21.30
Yearly Average	8.70	10.29	11.76	11.39	11.65	12.45	14.28	19.15

Source: Evidence, Special Committee on Prices, p. 1988.

Tables 104 and 105, showing the wholesale and retail prices of beef and pork carcasses and certain cuts before and after decontrol, are included here to point up the extent of the rise in price following the removal

of controls. It is evident that there were only slight increases in price between the removal of controls on October 22 and the third week in December. The packinghouse strike ended at the same time as the decontrol order was issued. The large backlog of cattle and hogs awaiting processing prevented any immediate increase in price. The export quotas which had been assigned to packers to insure an adequate shipment of hogs overseas were also relaxed. Although price controls were now formally off, the Dominion government still controlled the price of meat and livestock, since they controlled exports and negotiated the price of meat exports from Canada. The \$7.00 increase in the export price of Wiltshires and the \$3.00 increase in the contract price of red brand beef at the beginning of the new year brought about approximately equal increases in domestic wholesale prices. The relatively greater increase in the price of pork caused consumers to eat more beef and less pork.

TABLE 104
COMPARISON OF WHOLESALE PORK AND BEEF PRICES WITH FORMER
CEILING PRICES, TORONTO
(dollars per cwt.)

	Pork carcasses ^a	Red Beef carcasses
Former ceiling	\$25.75	\$25.00
Oct. 27, 1947	26.75	25.50
Dec. 11	26.50	26.50
Dec. 23	26.50	27.25
Dec. 31	28.00	28.00
March 2, 1948	34.00	27.50

a) Head off, leaf lard and kidney out.

Source: Evidence, Special Committee on Prices, pp. 1986, 1989.

TABLE 105
COMPARISON OF AVERAGE PRICES OF SELECTED CUTS OF RED BRAND BEEF
AND PORK AT RETAIL IN TORONTO WITH FORMER CEILINGS
(cents per lb)

	Sirloin Steak or Roast	Hamburger	Fresh Loin of Pork	Fancy side bacon (lb. package)
Former Ceiling	53	28	48	69
Oct. 30, 1947	53	28	47	71
Nov. 13	53 $\frac{3}{4}$	29	47	69 $\frac{1}{2}$
Jan. 12, 1948	59	30	57	77 $\frac{1}{2}$
Jan. 26	60	30	59	77
Feb. 10	60	31	57	78
Feb. 24	57 $\frac{1}{2}$	34	58	80
March 2	54	30	54	77 $\frac{1}{2}$
March 9	60	28	52	80
March 16	59	28 $\frac{1}{2}$	52	80

Source: Evidence, Special Committee on Prices, pp. 1987, 1989.

The upward trend in the price of beef received a sharp fillip in mid-August of 1948, when decontrol was finally completed by the removal of the embargo on the shipment of beef cattle and beef to the United States. Since this move was not unexpected, the price of cattle had strengthened during the late spring and summer. At the close of 1948, the price of good steers at Toronto was about \$7.00 per cwt. higher than at the close of 1947, and the increased price of cattle was reflected in correspondingly higher prices of beef to the Canadian consumer. Since storage stocks of beef were at a seasonal low in mid-August there were no opportunities for large gains on cold storage inventories, such as had occurred at the first of the year.

The removal of the embargo ruled out further shipments of beef to the United Kingdom at contract prices and the contract was accordingly cancelled after the shipment of 15.5 million pounds. Between August 16 and the end of the year over 83 million pounds of beef and 241,000 head of beef and feeder cattle had been shipped to the United States. The cattle exported were the better grades of fat cattle leaving a smaller proportion of what would be red and blue brand beef for domestic consumers. The following table indicates the change in the quality of domestic beef slaughtered in September, 1948, the first full month following the removal of the embargo on shipments to the United States compared with September, 1947. It will be noted that a very sharp drop in the percentage of beef graded as red brand or blue brand has occurred with the result that the Canadian consumer has been forced to accept the middle qualities of beef between the good and manufacturing grades.

TABLE 106
BEEF GRADINGS, CANADA, SEPTEMBER, 1947, AND SEPTEMBER, 1948
(per cent)

Month	Red	Blue	Commercial	Plain	Grade Cows	Commercial	Manufacturing	Bulls
Sept. 1947	11.2	21.6	29.1	6.7	12.5	5.6	8.3	5.0
Sept. 1948	2.9	7.2	23.8	9.9	13.8	10.3	22.8	9.0

Source: Dominion Department of Agriculture, Markets Information Section.

In terms of beef these combined shipments to the United States would have exceeded 200 million pounds. If the export embargo had not been removed it is possible the prices of Canadian cattle and beef would have declined.

The price of B-1 hogs at Toronto in late December of 1948, was about \$31.00 per cwt. as compared with \$28.00 at the beginning of the year. Although export contract prices had not been increased, packers were apparently able to sell to Canadian consumers those parts of the hog carcass not exported at sufficiently higher prices to warrant an increased price to producers. The higher price for beef had the effect of increasing the domestic demand for pork.

PRICE MAKING AND THE PROCESSOR'S MARGIN

The price which the primary producer receives for his livestock depends upon both the retail price of meat and the margins taken by the packer and the retailer. At pre-war prices for livestock and meats, these processing and retailing margins probably accounted for nearly half of the retail price. At the present high level of prices they will be less but we do not know how much less. The width of the margins taken by the packing firms will depend upon their efficiency and also upon their profits. Their profits may, in turn, be excessive if the firms operate under conditions of imperfect competition. The degree of competition obtaining in the markets in which the packers buy their livestock and sell their meats may, perhaps, best be judged by whether or not they are able to influence the price at which they buy or at which they sell.

In those industries in which the individual buyer or seller has little or no influence on the price of the product in which he is dealing, it will usually be found that any one firm handles only an insignificant proportion of the total product. Certainly no one farmer produces enough wheat, hogs or beef to enable him to exert any appreciable effect on the price which he may receive for these products. In this sense the farmer is in a highly competitive business. We have seen that the large packing firms do not operate in this kind of a market since three of them kill over 60 per cent of the total inspected slaughterings of both cattle and hogs. This fact does not, of course, prove that these firms do exert an influence on the price at which they buy and sell. It does establish a condition which would make it possible for them to do so.

In theory, the existence of imperfect competition among a small number of firms need not take the form of any explicit agreement on prices. It might well result in any one firm considering the effect any particular price which he asks or offers will have upon the prices of his competitors. No one firm is likely to raise its price to obtain a larger share of the material available, if it realizes that the remainder of the firms will raise their prices in retaliation with the result that they will all buy their former shares, but at higher prices. Smaller firms in an industry of this sort would likely pursue a policy of following the prices offered by the larger firms.

Asked for an opinion as to the attitude of smaller firms, whether or not they did follow the price set by the larger firms in this industry, a witness replied:

"We find for the most part that type of person is in and out of the business depending on whether it is profitable. If the market is fairly profitable then he will be in business in a big way, but as soon as the market turns to losses he gets out. For the most part I would suggest that they have to sell slightly lower—not much—but slightly lower than the packing plant.¹

As to the practice employed by the larger firms in setting prices their determination is left to the individual buyer or salesman, although

¹Evidence, Special Committee on Prices, p. 2372.

the packing firms each day set the maximum prices which their buyers may pay for livestock and the minimum prices at which they may sell meat. There is, therefore, no standard uniform price at which the packing houses buy any one kind and grade of livestock or at which they sell any one kind and grade of dressed meat. These buying and selling prices vary, not only from day to day, but also as among individual sellers of livestock and buyers of meat during the same day. This lack of a uniform, established price leaves the determination of the exact price to the individual buyer or seller. We may, with advantage, look at the buying and selling transactions separately.

Prices Paid for Livestock

The net profit, before payment of income taxes, which the packing companies are able to make depends upon two factors. The first is the gross margin between the price at which they buy livestock and the price at which they sell dressed meat, and the second is the cost of processing live animals on the hoof into dressed carcasses on the rail. In order to maximize net profits, before income taxes, the gross margin must be kept as wide as possible and the volume of livestock processed as large as possible.

In an industry such as meat packing, where a high proportion of total costs are for raw materials and where a large amount of the other costs are made up of fixed charges such as interest on the investment in plant and equipment, depreciation etc., which must be met irrespective of the level of output, it is possible to reduce average costs per pound of meat processed by expanding the volume handled. During the course of the hearings on meat the Special Committee attempted to discover how the prices which the various packing firms paid for livestock and received for meats were determined.

The packers secure live animals either by sending their buyers out directly to the farmer, rancher or feedlot operator or by purchasing livestock in the yards from a commission agent to whom the primary producer has consigned his cattle for sale. The packers may also buy in the yards from an independent drover who has himself bought cattle in the country in the hope of realizing a profit on their subsequent resale. In each case the buyer for the processor must strike a bargain with the seller. If the buyer goes out into the country and contacts the producer directly, the price which he pays will, within limits, depend upon how well informed the producer is as to the price prevailing in the yards for the various grades of cattle and also upon how good a judge the producer is of the quality of the cattle which he has to sell. Mr. J. S. McLean, President, Canada Packers, Ltd., referred to this variation in the prices paid to individual producers for the same class of cattle at the same time when he said "We buy dear cattle and we buy cheap cattle".¹

There is much greater scope for bargaining on the part of both buyer and seller in the selling of cattle, calves, sheep and lambs than in

¹Evidence, Special Committee on Prices, p. 2633.

the case of hogs. Since the latter are graded on the rail by the government graders, the buyer and seller have only to agree upon the price which will be paid for the various grades; they need not concern themselves with the grading of the hog itself. Most of the buyers employed by the packing companies have had a great deal of practical experience in appraising livestock. They are able to compare their rating of the live animal, whether it be medium, good or choice, with a government inspector's rating of the dressed carcass as commercial, blue brand or red brand.¹ In this respect they would appear to have a marked advantage over many small producers who sell directly to a packer buyer. The same statement holds true for transactions between small producers and drovers. It is less applicable to transactions between the packer buyers and commission agents who are more familiar with the grades of animals.

The buyer for the packing company receives specific instructions from his firm as to the top price which he may pay on any given day for the various classes of livestock. This is a maximum and not a fixed price. Mr. J. S. McLean has described the nature of one of these "trades":

"Every purchase of livestock is a trade. The packer always tries to buy his livestock as cheaply as he can. At any one time there is a recognized level of which both buyers and sellers are aware. For instance, when a lot of cattle is brought to market the cattle commission man who is selling those animals knows within 25 cents a hundred what he is going to get for them. The packer buyer knows within 25 cents a hundred what he is going to pay for them. The commission man starts by asking a little more than he expects to get and the packer starts by offering a little less than he expects to pay. That is the way every head of livestock in the country is bought—on that kind of a trade. So far as the packer is concerned he has been resisting this advance at the source because the packing industry is paying 2 cents a pound more for steers today and not because it wishes to do so. The packers have resisted that advance at every stage, step by step, but the thing which ultimately determines the level is the demand which exists in the country for beef."²

Given perfect competition among the various firms buying hogs we would expect a uniform price for, say, B-1 hogs for a given area which decreases as the distance from the killing plant, and hence freight costs, increases. Apparently the price in each area may sometimes depend upon whether there is more than one firm buying hogs in that particular area. Mr. H. W. Allen, President of the Alberta Livestock Co-operative Limited, brought out an example of this imperfection of competition in these words:

"Well, Mr. Chairman, particularly the co-operative associations in Alberta have objected to the variation in prices in the different

¹There is not a high degree of correlation between the grades of live cattle and the grades of dressed carcasses. "Good butcher" steers may yield "red brand", "blue brand" or "commercial" carcasses.

²Evidence, Special Committee on Prices, p. 2619.

areas of the same province. I am not referring to variation caused by distance but I mean variations in price in different areas which would be approximately the same distances from the packing centres. As I understand it, those variations exist because of competition between the packers for volume and in certain areas, which they call competitive areas, they will pay higher prices than they will pay in other areas. I am not suggesting the variations in price are serious as they run from 50 to 75 cents a hundredweight but, after all, we sell a standard product. The western farmer objected very strenuously in the old days to the variations in the price of wheat and we got the Canada Grain Act put into effect whereby a bushel of wheat sells at the same price all over Canada, allowing for freight differential. We believe that hogs, which are now graded pretty accurately, would be on the same basis and there is no reason for the variation which exists at the present time. We have taken this matter up with the packers on a number of occasions and I think most of them will admit it is just a practice that has grown up; they were more or less forced into the practice but they cannot really justify it."¹

The price prevailing for B-1 hogs in a "competitive area" which is some distance from the plant may, according to this evidence, be higher than that paid for hogs in the immediate vicinity of the plant. This practice would indicate that, if forced to do so in order to secure more hogs, the packing firm can afford to pay higher prices; that is, its marginal revenue, derived from processing additional hogs, exceeds the marginal cost of processing these hogs. In this particular instance the packing firms would appear not to be paying a competitive price equal to average costs plus normal profits, in the vicinity of the plant at Edmonton, Alberta. Such practices suggest an imperfectly competitive market for hogs.

Farmers have tried to protect themselves against livestock prices which the processor can, in some degree, control by organizing co-operative marketing associations, such as the Alberta Livestock Co-operative. This co-operative now handles approximately 30 per cent of the total hog marketings in Alberta. Marketing boards organized under provincial laws are intended to accomplish a similar objective.

Under the Ontario Hog Producers' Marketing Scheme provision is made for the appointment of a negotiating committee of 10 persons, five appointed by the Board and five by the licensed processors. This negotiating committee agrees upon a minimum price which is to be paid for hogs.

Prices Received for Dressed Meat

Just as there is no standard uniform price which the packing houses pay at any given time to the various sellers for the same class of cattle,

¹Evidence, Special Committee on Prices, p. 2104.

so there is no uniform price at which the packers are prepared to sell carcasses to their retail customers at any given time. Mr. J. S. McLean explained that the salesmen for Canada Packers, and they have "three or four hundred on the road every day", go around to the retail outlets with an order book. The salesman "haggles" with the retailer over the exact price, although the salesman has instructions not to sell below a specified minimum. Canada Packers, moreover, still reserves the right to refuse to fill any or all of these orders if they are "taken at an extremely low price". Mr. McLean's own evidence is as follows:

"Every sale of beef, and each sale of beef, is a matter of cattle trading—there are no standard prices, there are no prices worked out as average prices for the various brands of beef. You have that on page 68, as an example, those are the average prices—costs—by weights; and that is a general guide as to what we ask for the beef; but any sale of beef, every sale of beef that is made in Canada, and there are hundreds of thousands of them, are conducted in just the same way as I have described in regard to cattle. The packer's salesman, the customer wanting red brand beef, asks him a certain price; and the butcher tells him something less—he says, well, I can buy from Swift's or from Wilsil's, or from Schneider's or one of the other companies, for so much. And that happens in every sale. Today, I think probably the packing industry is a separate industry by itself in that respect. We have no standard prices nor do we raise the prices on beef. If you are thinking about lumber, for instance—or steel sheets, or a whole lot of other commodities which one might name—there is always a standard price and all trades are at that price. In the packing industry there is an entirely different situation; and I think with that explanation I can finish up the answer to your question by saying that in each case we get as much as we can, we buy the cattle as cheaply as we can and we sell beef for as much as we can".¹

There is thus no standard price for carcasses as there are for such highly standardized commodities as butter or grain which are traded on organized exchanges. The price which any individual retailer pays will likely depend upon his bargaining ability, upon the quantity of meat which he wishes to buy, or, perhaps, upon his buying some other commodity. Mr. McLean again brought out this latter point in reply to a question as to what part competition played in the determination of the firm's selling price.

"On thousands of sales we sell for something less than cost and on thousands of others we sell for something more than cost, and each year the net result of it works out to what I have shown you, it is a small fraction of a cent a pound. Now, that has been going on. That is, in the packing industry no individual sale can be good because the price is too high and no individual sale is a

¹Evidence, Special Committee on Prices, p. 2620.

bad sale because the price is too low. What happens is that you have, I was going to say a duel—you have a bargaining arrangement in between the salesman and the retailer with the result that sometimes the salesman will take too low a price on beef in order to get an order on something else”.¹

Processors' Profits

Typically the larger firms in the packing industry make very small profits per pound of product handled. For the 13 fiscal years from 1936 to 1948 Canada Packers averaged a net profit, before income taxes, of one third of a cent per pound.² The company more frequently quotes an estimate of average “net profits” for this period of one-seventh of a cent per pound. “Net profit” in this case is gross profit less income taxes and also less amounts set aside as “inventory reserves”. These latter are simply reserves. In a year of large profits an arbitrary amount is set aside “against a rainy day”. In the fiscal year 1947-1948 Canada Packers set aside, as inventory reserves, the \$626,000 which it netted on storage butter. Similar reserves, varying from \$380,000 to \$1,310,900 were set aside during each of the six years from 1940 to 1945. The Income Tax Branch of the Department of National Revenue does not recognize “inventory reserves” as being deductible in the calculation of net taxable income.

In appraising the earnings of a firm, net income before taxes is a much more meaningful guide to most people than net income after taxes. Any estimate of net income after taxes is even less significant if a large and completely arbitrary deduction has first been made for “inventory reserves”. Moreover when this “net profit” figure has been converted to a “per pound of product” basis by dividing by the aggregate pounds of everything which the company has “produced” from “red brand beef and soap” to tankage and fertilizer, it means even less.

An estimate of net profits after payment of all expenses, but before the payment of corporation income taxes, or the setting aside of “inventory reserves”, is the customary, and still the most significant indicator of the return to capital. On this basis, for the fiscal year ending in March, 1948, Canada Packers made a net profit of \$6,444,000 on a capital investment of \$27,490,392.² The rate of profit is therefore 23.4 per cent. However Canada Packers has, since 1936, paid to its employees, as bonuses, an amount roughly equal to its distribution of dividends to shareholders. Our calculation above implies that employees receiving bonuses are really participating in the profits of the firm. Since bonuses are varied directly with net profits this seems a reasonable assumption. If, however, bonuses are to be regarded as a part of wages, and hence deductible from net profits, the rate of profit for 1947-1948 would be reduced to 18 per cent.

Relatively to their respective shares of the livestock market, the profits of Swift Canadian and Burns are small as compared with Canada

¹Evidence, Special Committee on Prices, p. 2695.

²This is Mr. J. S. McLean's own estimate of the “shareholders' investment” as of March 27, 1947. Evidence, Special Committee on Prices, p. 2638.

Packers.¹ There is no estimate available of their capital investment to permit calculation of a rate of profit. The general picture is, however, fairly clear. The large processing firms are efficient and, although realizing rather small profits per unit of output, earn substantial returns on their investments. The very heavy capital investment required to process large quantities of livestock, together with apparently decreasing costs as the scale of the business expands, tend to keep out competitors despite very attractive returns on investment. Although some of the profits of packers may be attributable to their ability to influence the prices at which they buy and sell, the large packing firms may well be providing processing services at lower costs per pound than larger numbers of smaller, highly competitive firms would be able to offer.

THE EFFECT OF DECONTROL AND HIGHER EXPORT CONTRACT PRICES ON PACKERS' PROFITS

The packing industry was twice presented with a set of conditions permitting the making of exceptional profits on meat within an interval of a few months. The first occurred with the simultaneous removal of formal price ceilings and the settlement of the packing house strike in October, 1947; the second with the re-negotiation of the export contracts on pork and beef at the beginning of 1948. Although profits realized from each of these circumstances cannot be separated in the firms' accounts, we will deal with them separately.

The Removal of Ceilings and the Settlement of the Strike

A comparison of the profits of the three major packing firms, for the four months following the decontrol of prices in October, 1947, with those for a similar four month period in 1946-1948, is made in Tables 107 and 108. Although the volume of sales for these two periods was approximately equal, combined net profits (before the deduction of incomes taxes and inventory reserves) were \$4.3 million in 1947-1948 as compared with \$0.9 million in 1946-1947. On a per pound of product processed basis, profits were 0.26 cents in 1946-1947 and 1.15 cents in 1947-1948.

These rather high profits after decontrol might more properly be attributed to conditions existing after the packing house workers' strike than to the removal of formal price ceilings. The contract price of Wiltshire sides had been increased during the strike while the pressure of livestock awaiting processing services was intense as farmers were losing money every day they had to hold over-ready hogs. The three firms averaged net profits of more than 2¼ cents per pound for the month of November.

In February, two of the three firms sustained losses on their meat operations as processing margins narrowed and the volume of livestock

¹The net profits of these two firms are to be found in the Evidence, Special Committee on Prices, pp. 2237, 2341.

processed declined. Consumers were finding it difficult to accustom themselves to the sharp increase in meat prices and, in some localities, were curtailing their purchases.

Fortuitous Gains on Inventory Accruing to Packers as a Result of Higher Export Prices

Higher contract prices with the United Kingdom for pork and beef came into effect on January 1, 1948, and these higher export prices almost immediately brought the domestic price up by an equivalent amount. The data in Table 104 indicate that the price of pork carcasses at Toronto was \$34.00 per cwt. on March 2, 1948, as compared with \$26.50 on December 23, 1947. Red brand beef carcasses were up \$2.00 per cwt. over the same period. Estimates of cold storage holdings of meat as of January 1, 1948, supplied by the Dominion Bureau of Statistics, show inventories of 42.9 million pounds of beef and 57.5 million pounds of pork. The beef inventory was thus at an all time high, while that for pork, although not a record, was well above normal. These facts would indicate that those firms holding large inventories of beef and pork at the end of 1947 may have realized large gains on the value of their inventories.

Now the firms storing this meat would not stand to make any inventory gain on that part of their inventories which had been consigned to the Meat Board. Mr. Pearsall, outlined the mechanics of the Board's purchases of beef. He said:

"Specifications for beef that is offered to the Board provide that it must be offered not later than 5 days after slaughter. During the first week of January, after the price was increased, our inspectors at the plant—were instructed to identify the day's slaughterings; and any slaughterings prior to December 31, would be settled for on the 1947 price."

Purchases of pork were handled in a similar fashion.

"On pork, each week the packer is required to file a statement showing the quantity in store and the quantity put into the freezer on account of the Board. . . . Any Wiltshire sides. . . . that were in freezer for the account of the Board prior to December 31, would be settled for as on last year's price."¹

If we are to assess the inventory gains realized by the firms storing meat it is essential to distinguish that part of the total inventories at January 1, 1948, held for the account of the Meat Board. The Special Committee did not request the various packing firms appearing before it to submit their inventory statistics in such a way as to give this breakdown. One firm, Canada Packers, which almost invariably submitted very complete and well organized statistical data, did give this necessary breakdown. They are summarized, along with the inventories for other companies, and the total for Canada in Table 109.

The three large packing firms and Wilsil, among themselves, held over two-thirds of the total holdings of beef and pork. Although Canada

¹Evidence, Special Committee on Prices, p. 2463.

Packers held 14.8 million pounds of pork, only 1.5 millions were for the account of the Meat Board and the firm would stand to make very substantial inventory gains on over 13 million pounds. Although this firm held 10.1 million pounds of beef, only 2.2 million pounds were held for the Meat Board and for customers; the firm would sell the remainder at the higher prices prevailing after January 1. Burns and Co. held a similar small proportion of their total pork inventory for the Meat Board. If the other firms were holding as small a part of their total inventories for the Meat Board as were Canada Packers, they all made substantial profits on their holdings of beef and pork.

SUMMARY AND CONCLUSIONS

Canadian consumers paid moderately higher prices for pork and beef in 1947 and sharply increased prices in 1948. The removal of formal price controls in October, 1947, did not lead to any immediate price increase, partly because of the packing house strike, but mainly because the real control of prices lay in the control of exports and of export prices which, in turn, were fixed by contract with the United Kingdom. The contract price of pork was raised twice during 1947, each time by \$2.00 per cwt. Since Canada was producing a surplus of pork over and above her own consumption, the price paid for this surplus determined the price in Canada and the domestic price, therefore, increased as the contract price was raised.

As of January 1, 1948, the contract price for Wiltshire sides was raised by a further \$7.00 per cwt., and that of red brand beef by \$2.00 a cwt., and again the domestic price of both meats moved up by an equivalent amount. Since the new prices were negotiated between two governments, rather than determined by the impersonal forces of demand and supply, it might be argued that the increase in the bacon price was more than necessary. It seems likely that increased feed costs resulting from the removal of ceilings and subsidies on feed grains would have sharply checked the output of hogs, failing a substantial increase in their price. Even with this higher price Canadian farmers failed to produce enough hogs to fill a fairly modest export contract for 225 million pounds of bacon in 1948. The price of hogs in Canada in 1948 was roughly the same as in the United States. The real control on the price of beef in Canada was the embargo on the export of cattle and beef to the United States. This fact became apparent even before the removal of the embargo since cattle and beef prices rose as farmers restricted marketings in anticipation of entry to the higher priced American market. Spokesmen for the cattle industry presented statistics to the Special Committee showing the increased cost of producing cattle. The supply of "grass" cattle is much less dependent upon the price of feed grains than is the supply of hogs and an increase in prices was not essential to the maintenance of this supply.

The cattleman did have a strong case for re-admission to his traditional export market in the United States, since neither the market

in the United Kingdom or in Canada was prepared to absorb the volume of cattle offered for sale in late 1948. The 1948 contract with the British Ministry of Food called for 50 million pounds of beef. Our exports of beef and beef cattle during the year exceeded 215 million pounds, all but about 15 million pounds going to the United States. These exports made a material contribution to our supplies of scarce United States dollars.

The three largest packing firms in Canada submitted accounts to the Special Committee which showed that they made a combined net profit of \$4.3 million in the four months following the simultaneous removal of price controls on meats and the settlement of the packing house workers' strike in late October, 1947. Market conditions following the strike probably had greater effect on these profits than the removal of controls. Profits for the corresponding period in 1946-1947 were less than one million dollars.

Those firms owning beef and pork in cold storage at the end of 1947 made substantial fortuitous gains as a result of inventory appreciation, as market prices advanced with the increased United Kingdom contract prices. No such inventory profits were made on meat consigned to the Meat Board. Although complete data on the quantity of such consignments were not furnished to the Special Committee, the information available indicates that it was a very small percentage of total holdings. The four firms, Canada Packers, Swift Canadian, Burns and Wilsil held over two-thirds of the total cold storage stocks. The inventories of beef as of January 1, 1948, were at record levels; those of pork, while not a record, were relatively large.

Packers' net profits may be only a fraction of a cent per pound, but because of their extremely large volume, these profits may be a high percentage of the capital invested in the firm. One firm submitting accounts to the Special Committee made net profits in excess of 23 per cent of its capital investment during its fiscal year ending in March, 1948. Firms tend to disguise these high profits in their annual reports by making such deductions as corporation income taxes, additions to "inventory reserves" and bonuses to employees before calculation of "net" profits. However, it is still a fair statement that, even by taking no profits during late 1947 and early 1948, packers could not have made any great contribution towards lowering the price of meat to consumers.

Packers' assertions that their industry is highly competitive may not be warranted by the facts, if by "highly competitive", we mean that no one firm is able to influence the price at which it buys or sells. This, of course, does not mean that rivalry does not exist between these firms. The "Big Three", Canada Packers, Swift Canadian and Burns, killed over 60 per cent of the total inspected slaughterings of cattle and hogs. Canada Packers alone slaughtered 30 per cent of the cattle and 27 per cent of the hogs killed in inspected plants. Under these circumstances any one of these firms must be aware that any change which it makes in either its buying or selling prices will have an effect upon the prices

TABLE 107
SUMMARY OF OPERATIONS OF THREE PACKING FIRMS, NOVEMBER, 1946—FEBRUARY, 1947

	November, 1946	December, 1946	January, 1947	February, 1947	Total 4 months
Volume (thousands of pounds)					
Canada Packers Ltd., Packing Plants	56,218	36,381	32,219	31,982	156,800
Swift Canadian Co. Ltd.	37,016	25,642	22,066	25,953	110,677
Burns and Company, Ltd.	24,534	23,080	19,797	15,819	83,229
Total	117,768	85,103	74,081	73,754	350,706
Profit from Meat Operations (dollars)					
Canada Packers Packing Plants	\$127,228	\$144,128 ^a	\$ 49,286	\$ 95,964	—
Branches	3,295	4,040 ^a	23,511	5,396	—
Swift Canadian Co. Ltd.	130,523	148,168 ^a	72,797	101,360	156,512
Burns & Co. Ltd.	280,178	4,649 ^a	73,641	38,792	387,962
	61,578	118,172	130,837	57,556	368,143
Total	\$472,279	\$ 34,645 ^a	\$277,275	\$197,708	\$912,617
Profit per pound of meat sales (cents per pound)					
Canada Packers Ltd.	.23	.40 ^a	.23	.32	.10
Swift Canadian Co. Ltd.	.76	.02 ^a	.33	.15	.35
Burns & Co. Ltd.	.25	.51	.66	.36	.44
Total	.40	.04 ^a	.37	.27	.26

^a) Loss.

Source: Evidence, Special Committee on Prices, p. 3959.

TABLE 108
SUMMARY OF OPERATIONS OF THREE PACKING FIRMS, NOVEMBER, 1947—FEBRUARY, 1948

	November, 1947	December, 1947	January, 1948	February, 1948	Total 4 months
Volume (thousands of pounds)					
Canada Packers Ltd. Packing Plants	53,448	44,099	36,524	38,982	173,053
Swift Canadian Co. Ltd.	39,960	27,770	23,909	30,517	119,156
Burns & Co. Ltd.	23,049	19,855	19,804	17,609	80,317
Total	113,457	91,724	80,237	87,108	372,526
Profit from Meat Operations					
Canada Packers Ltd. Packing Plants	\$1,207,582	\$480,273	\$500,963	\$ 16,727	
Branches	52,543	24,548	79,525	30,978	
Swift Canadian Co. Ltd.	1,260,125	504,821	580,488	47,705	2,393,139
Burns & Co. Ltd.	991,285	336,424	261,335	262,799 ^a	1,326,245
Total	\$2,593,472	\$905,399	\$1,008,892	\$218,927 ^a	\$4,288,836
Profit per pound of meat sales (cents per pound)					
Canada Packers Ltd.	2.36	1.14	1.59	.12	1.38
Swift Canadian Co. Ltd.	2.68	1.21	1.09	.86 ^a	1.11
Burns & Co. Ltd.	1.48	0.32	.84	.02 ^a	.71
Total	2.29	0.99	1.26	.25 ^a	1.15

^a) Loss.

Source: Data submitted by firms to Special Committee on Prices, p. 3959.

TABLE 109

TOTAL INVENTORIES IN CANADA OF BEEF AND PORK AND THOSE OF FOUR PACKING FIRMS AS OF JANUARY 1, 1948

(millions of pounds)

	Canada Packers Ltd. Dec. 31, 1947	Swift Canadian Co. Ltd. Jan. 3, 1948	Burns & Co. Ltd. Dec. 31, 1948	Wilsil Ltd. Dec. 27, 1947	Total Canada
Frozen Beef	5.5	4.9	5.1	1.1	
(a) Stored for Meat Board	0.8				
(b) Stored on Contract for Customers	1.4				
(c) Other	3.3	4.2	1.3	0.5	
Other Beef	4.6				
Total Beef	10.1	9.1	6.4	1.6	42.9
Frozen Pork	5.4	7.4	4.7	1.9	35.8
(a) Meat Board	0.5		0.2		
(b) Other	4.9		4.5		
Other Pork	9.4	8.8	4.0	1.1	21.7
(a) Meat Board	1.0		1.3		
(b) Other	8.4		2.7		
Total Pork	14.8	16.2	8.7	3.0	57.5

Source: Data on inventories submitted by firms to the Special Committee on Prices, Inventories for Canada compiled by the Dominion Bureau of Statistics, Ottawa.

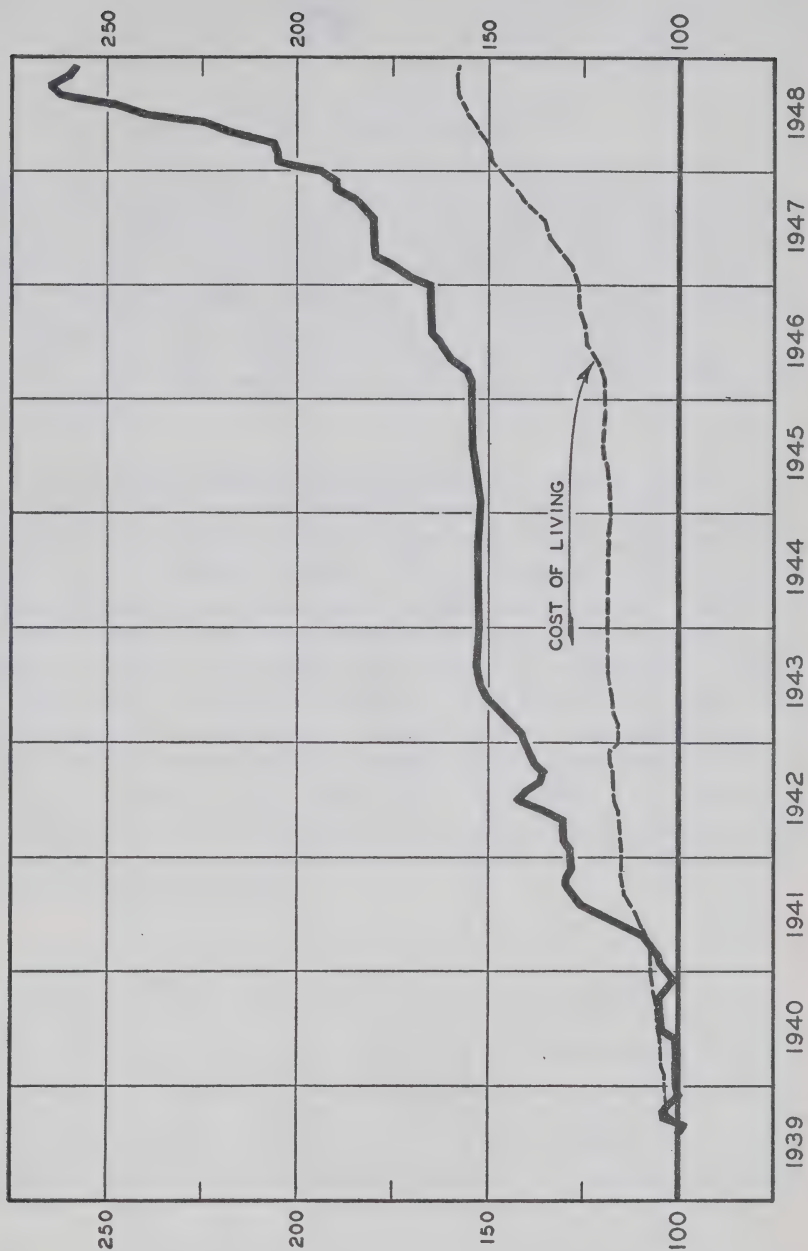
paid or charged by the other firms, and that the action of these other firms will, in turn, react upon its own purchases and sales.

There is evidence to indicate that the buying and selling prices of the smaller firms are patterned upon those of the larger firms. There is competition among the large packing firms but it is not "perfect" competition, such as prevails in the primary livestock industry or in the retail industry. Farmers and retailers are able to exert little or no influence upon the price which they receive for their products in open markets.

An examination of the present practice of selling cattle on the basis of live grades indicates that non-specialized cattle producers may be at a disadvantage in bargaining with experienced buyers. Although cattle producers can follow the price of "choice", "good", or "medium" steers on the livestock markets by means of the newspaper or radio, they are not able to classify their own cattle accurately into these categories. Expert witnesses who appeared before the Special Committee indicated that there was no exact correspondence between the accepted grades of live cattle and the grades placed on beef carcasses. "Good" steers usually, but not always, yield "blue brand" carcasses. Further study of the applicability to beef cattle of a rail grading system, similar to that now in effect for hogs, seems warranted.

Although the combined margins taken by meat processors, distributors and retailers normally amount to upwards of 50 per cent of the retail value of this meat, relatively little research has been undertaken in Canada on ways of reducing these marketing costs. A convenient place to start would be in calculating the farmers' share of the consumer's dollar for some, at least, of the more important farm products.

CHART XII
MEAT RETAIL PRICE INDEX
(AUGUST 1939 = 100)



Source: Dominion Bureau of Statistics, Ottawa.

FRUITS AND VEGETABLES

BECAUSE of the very sharp rise in the prices of fruits and vegetables which occurred during the winter of 1947-1948, the Special Committee on Prices selected this industry for scrutiny during its hearings. The price rise was particularly evident in the case of fresh vegetables whose retail price index rose from 152.6 in November, 1947, to 227.5 in July, 1948. Until that time, the rise in prices of fruits and vegetables did not seem to be out of line with the general advance that had occurred in farm product prices.

We have found factors affecting the supply and prices of fruits and vegetables in Canada to be exceedingly diverse. Fruits and vegetables grown in Canada, may be sold either in the fresh state or in processed form. Both of these markets compete for the growers' output on the supply side and for the consumers' dollar on the selling side. The fresh product, in turn, may be sold immediately or kept in cold storage for several months or longer. Imports supplement our domestic supply, particularly for fresh fruits and vegetables. In addition, for some products such as apples and potatoes, Canada has a substantial export market. The seasonal character of Canadian production together with the perishability of many fresh fruits and vegetables, also exerts an influence on prices. In the summer and fall when the local market is at its peak, prices fall. During the winter and spring when local supplies are scarce, higher prices prevail.

CANADIAN PRODUCTION OF FRUIT AND VEGETABLES

Canada's commercial production of fruits and vegetables, forms a relatively small part of the total farming picture. In recent years only about six or seven per cent of total Canadian cash farm income has come from the sale of these products. But for a number of small areas which provide the bulk of our commercial output, it provides the main source of income.

For fruits a favourable climate is particularly important and commercial production is concentrated in four specialized geographic regions: the Fraser and Okanagan valleys in British Columbia, the Niagara peninsula in Ontario and the Annapolis valley in Nova Scotia. In 1947, these three provinces produced almost 90 per cent of Canada's total out-

put. Apples are the most important crop, accounting for about one-half of the total value of fruit production. Next in order of importance come strawberries, peaches, raspberries, grapes and pears. Some data on the value and output of commercial fruit production in Canada, are given in the following table.

TABLE 110

CANADIAN COMMERCIAL FRUIT PRODUCTION AND VALUES,

1935-1939, 1946 and 1947

(thousands of units)

Product	Unit	Average 1935-1939		1946		1947	
		Quantity	Value in thousands of dollars	Quantity	Value in thousands of dollars	Quantity	Value in thousands of dollars
Apples	bushel	14,560	10,978	19,282	27,196	15,619	22,335
Pears	bushel	569	701	951	2,278	966	2,444
Plums, prunes	bushel	264	318	811	1,755	723	1,634
Peaches	bushel	1,023	1,473	2,145	5,356	1,681	4,572
Apricots	bushel	50	104	147	446	116	407
Cherries	bushel	210	556	337	2,113	299	2,144
Strawberries	quart	23,493	2,094	17,412	4,498	25,659	5,388
Raspberries	quart	9,157	953	13,240	3,364	18,212	4,917
Grapes	pound	42,818	793	67,321	3,160	73,803	3,783
Loganberries	pound	1,872	100	1,637	222	1,413	198
Total	—	—	18,070	—	50,388	—	47,822

Source: Dominion Bureau of Statistics, Ottawa.

Because specialized areas are less important for vegetables, their commercial output is more widespread than in the case of fruit. For vegetables that are marketed in a fresh form, particularly where the product is highly perishable, accessibility to a large urban market is important and many growers locate near such markets. On the other hand, vegetables which are to be processed will be produced in the most favourable growing areas and processing plants will locate nearby. Potatoes are easily the most important of the vegetables and farm income received from their sale is roughly equal to that received from the sale of all other vegetables. They are particularly important in Prince Edward Island and New Brunswick, and farmers in these two provinces receive 25 per cent or more of their cash income from the sale of potatoes. Much of this production is sold in central Canada and in export markets.

For all other vegetables, Ontario, Quebec and British Columbia produce over 90 per cent of our commercial crop, with Ontario contributing about 60 per cent of the total. Canada's output of the more important of the vegetables for two recent years is given in the following table.

TABLE 111

PRODUCTION OF VEGETABLES, CANADA, 1946 and 1947

(thousands of pounds)

Kind	1946	1947
Beans	40,914	37,554
Beets	50,114	42,782
Cabbage	151,037	100,093
Carrots	125,359	114,866
Cauliflower	29,711	23,795
Celery	46,030	48,196
Corn	251,088	222,006
Lettuce	44,829	48,406
Onions	140,031	141,608
Peas	132,246	94,089
Spinach	15,846	16,602
Tomatoes	800,736	559,446
Total	1,827,941	1,449,443

Source: Dominion Bureau of Statistics, Ottawa.

IMPORTS OF FRUITS AND VEGETABLES

Imports of fruits and vegetables make an important addition to Canada's supply of fresh foods. Imports provide fresh fruits such as oranges, grapefruit and bananas, or dried fruits such as raisins, dates and figs which are not produced in Canada. Some of the fruits and vegetables imported are of the same type as Canada produces, but they can be obtained during periods when fresh Canadian supplies are not on the market. In the winter months, imports of tomatoes, lettuce, celery, carrots and cabbages supplement Canadian supplies. Some measure of the over-all importance of these imports, is indicated by the fact that in 1946, our total imports of fruits and vegetables amounted to \$122.7 million, the equivalent of 88 per cent of the total value of fruits and vegetables marketed by Canadian farmers. Of this total over 70 per cent came from the United States.

TABLE 112

IMPORTS OF SELECTED FRUITS AND VEGETABLES,

1938-1939, 1946 and 1947

(thousands of units)

Product	Unit	Average 1938-1939	1946	1947
Bananas	stems	3,084	5,322	3,649
Oranges	cu. ft	6,692	11,499	10,654
Grapefruit	lbs.	—	142,277	124,169
Grapes	lbs.	—	—	54,955
Raisins	lbs.	—	—	64,312
Cabbage	lbs.	19,561	43,197	34,481
Carrots	lbs.	20,460	53,362	49,724
Onions	lbs.	21,644	27,386	24,991
Celery	lbs.	22,008	41,753	33,090
Lettuce	lbs.	40,436	66,919	60,572
Tomatoes	lbs.	47,400	88,558	80,090

Source: Evidence, Special Committee on Prices, pp. 5800-01.

Though restricted by the Canadian tariff, imports of fruits and vegetables, particularly from the United States, provide keen competition for Canadian growers. American production starts early in the year in the southern states. As the season advances crops mature in areas successively further north, with the Canadian product being the last to appear on the market. Canadian growers are protected from the full effects of this competition by a year-round ad valorem tariff of 10 per cent on most items. In addition special protection is provided during the period when the Canadian crop is being marketed in the form of somewhat higher specific duties which supplement the above tariff at that time. During the early thirties tariff rates were much higher than this, but these have been gradually reduced by negotiation.

TOTAL SUPPLY AVAILABLE TO CANADIANS

The total supply of fruits and vegetables consumed by Canadians consists of domestic production, plus imported supplies less the amounts exported. An estimate of this for the year 1944, is given in the following table. In these totals an estimate is included for the output of individuals who grow fruits and vegetables for their own use, as well as for the production of commercial growers. These data show an annual per capita supply of 214 pounds of potatoes, 47 pounds of leafy, green and yellow vegetables, 109 pounds of tomatoes and citrus fruits (in fresh fruit equivalent) and 92 pounds of other fruits.

TABLE 113

FRUITS AND VEGETABLES AVAILABLE FOR CIVILIAN CONSUMPTION, 1944
(thousands of pounds)

Product	Production	Imports	Exports	Net Annual Use	Per Capita (Annual) Civilian Use
Tomatoes and Citrus Fruit					
Tomatoes, fresh	907,652	56,559	—	256,355	22.8
Tomatoes, canned	93,535	—	646	80,549	7.2
Pulp, paste, puree	39,032	—	23	16,562	1.5
Fresh citrus	—	563,464	—	533,425	47.4
Canned citrus	—	39,237	—	37,977	3.4
Total, fresh equivalent					109.47
Fruit, Other than Citrus					
Other fruits, fresh	1,028,398	246,708	148,021	584,844	51.9
Other fruits, canned	63,952	202	1,640	45,952	4.2
Other fruit juice, canned	11,606	—	—	6,468	.6
Other fruit, dry	12,500	97,930	4,179	96,428	8.6
Frozen fruit	2,939	—	—	3,023	.3
Total, fresh equivalent					92.0
Leafy, Green and Yellow Vegetables					
Cabbage and Spinach	226,400	38,983	—	154,665	13.7
Lettuce	39,112	38,081	—	59,472	5.3
Carrots	173,176	32,161	—	143,467	12.7
Legumes (peas and beans)	144,443	6,041	—	38,432	3.4
Canned (net contents)					
Spinach	1,317	—	—	1,021	.09
Carrots	2,107	—	—	501	.04
Legumes	142,620	80	729	132,348	11.75
Total, fresh equivalent					46.98
Potatoes					
Potatoes, white	4,940,900	19,536	396,350	2,410,937	214.1
Potatoes, sweet	—	7,296	—	6,931	.6
Total potatoes					214.7
Other vegetables					
Other, fresh	827,939	67,463	167,953	567,091	50.4
Other, canned	77,086	30	3,299	60,770	5.4
Total, fresh equivalent					55.8

Source: A Report on Nutrition and the Production and Distribution of Food, Appendix C, Department of National Health and Welfare, Ottawa, 1946.

THE MARKETING OF FRESH FRUITS AND VEGETABLES

The marketing of fruits and vegetables in Canada is characterized by a great variety of methods. In general, shippers, wholesalers and retailers each play an important part, but in many instances one or more of these stages may be omitted. Thus, in small cities and towns farmers and market gardeners sell a substantial amount of their produce directly to the consumer. In the larger cities the farmer is more likely to sell to retailers or wholesalers. One witness estimated that 90 per cent of the vegetables grown in the vicinity of Montreal, were sold directly to the retailer by the grower.¹ In the Toronto market many growers send their fruits and vegetables to wholesalers who sell their products on a commission basis.

¹Evidence, Special Committee on Prices, p. 3205.

Where growing areas produce larger quantities than can be consumed in their immediate neighbourhood, some agency is required to collect the crop of the grower and move it to the market. This is especially true of potatoes and apples in the Maritimes and of apples and other fruits in British Columbia. In such instances, shipping firms collect the fruits or vegetables from the grower, pack the products in a standard fashion, grade them and ship to consuming areas. In contrast, where produce is sold in nearby markets it may move to market in a great variety of ways. Many growers have their own trucks and take their produce to market several times a week. Others sell it from the farm to a truck-dealer or send it by truck, rail freight or express to a wholesaler who purchases it outright or sells it on consignment. This type of movement is on a smaller scale and involves less grading and standardized packaging than is true of the shippers described above.

While wholesalers perform a variety of functions their main purpose is to provide warehousing facilities for the products of many growers and as a convenient purchase location for retailers. Wholesalers may buy and sell for their own account, or may act as brokers or consignment agents. In addition wholesalers in the fruit and vegetable trade frequently serve as importers. Available data indicate that there were over 400 wholesale firms and over 180 wholesale shippers operating in Canada in September 1948.¹

Judging from the number of firms, there appears to be a very competitive situation in the wholesaling of fruits and vegetables in eastern Canada. The large number of available markets for the product, the products' inherent perishability and the ease with which the wholesaler can be disregarded, make it difficult for any degree of monopoly to develop. This is not quite so true of western Canada. The Prairies in particular are more dependent on fruits and vegetables shipped in from other areas and a large proportion of their wholesalers belong to chain organizations. In fact three chains operating throughout western Canada control nearly one-half of the wholesale establishments. In addition two of the three principal chain wholesalers have affiliated retail outlets.² Some fruit and vegetable processing is controlled by these same groups.

Chain stores operate on a cash and carry self-service basis and a substantial portion of their sales result from consumer impulses within the store. In such a system of merchandising the fruit and vegetable display is often a trade magnet designed to attract customers into the store. In their purchases the chains have gained a reputation of paying growers well and of carrying on educational work leading to an improvement in the quality of fruits and vegetables produced in areas adjacent to chain selling outlets. The extent to which chain stores undersell independent stores may reflect the efficiency of their combined shipping, wholesaling and retailing operations. However, chains use regular wholesalers to some extent and sometimes make their wholesale departments available to other wholesalers and retailers.

¹Dominion Department of Agriculture, Fruit and Vegetable Division.

²Western Grocers with Shop Easy and Red and White Stores; Macdonald's Consolidated with Safeway Stores.

THE PROCESSING OF FRUITS AND VEGETABLES

Fruits and vegetables are marketed in processed form as well as in the fresh state. Processing may consist of canning, fast-freezing, the production of soups, fruit and vegetable juices, infant foods and pickles, marmalades, jams and jellies. The development of this field has greatly expanded the market for Canadian producers. At the same time, it has provided the consumer with a year-round supply of foods which, though not in general as attractive as in their fresh form, are still wholesome and nutritious. This has been of significance in Canada, where the short summer season severely limits the time during which fresh produce of Canadian origin is available. In 1946, there were 513 fruit and vegetable processing establishments in Canada, with a gross value of production amounting to \$136 million. Of these about two-fifths were located in Ontario and they produced over 60 per cent of the industry's total output. Quebec and British Columbia are next in importance, each of them producing about 15 per cent of the Canadian total for 1946.

Among the processed fruits, apples led both in quantity and value. Nearly 200 million pounds were processed during 1946, and for them farmers were paid over \$3,000,000. Peaches were second in terms of value followed in order by strawberries, raspberries and cherries. Of vegetables, tomatoes are by far the most important single crop used by the canning industry. The industry's total purchases of tomatoes in 1946, amounted to about \$7,700,000. Green peas were next in importance, followed by green or wax beans and corn. Though accurate statistics are lacking, available data suggest that more than one-half of the commercial production of tomatoes, peas, corn and beans are factory processed.

In some degree the canning or processing industry competes with the fresh market for the farmers' produce. Competition is particularly keen in the case of fruits, and prices paid by the canners for fruits will not differ substantially from those paid in the fresh market. However, for vegetables, competition between these two markets is somewhat more restricted. The large vegetable canners customarily contract with farmers to produce specifically for them. The contract requires the planting of varieties suitable for the cannery and provides for some supervision by the cannery over the production and harvesting of the crop. While vegetable production intended for the canner may occasionally find its way to the fresh market, this is unusual. Canneries are generally located some distance from the urban market so that the transport costs place a barrier on this movement. On the other hand, vegetables produced specifically for the fresh market are more often from farms located close to the larger cities and their product may not be entirely suited to the canners' needs. Because of their location their costs are also somewhat higher so that even a relatively attractive price for vegetables at the cannery will not always interest the grower for the fresh market. There is of course, some relation between the two markets and prices paid by the canner will usually place a floor under prices on the fresh market.

In both Ontario and British Columbia, provincial marketing Acts provide a framework for negotiation between canners and farmers. Minimum prices are established by negotiation between representatives of the growers and canners and no processor may go below these prices. In this way, a floor or guaranteed support price is provided for fruits and vegetables.

The Canadian fruit and vegetable processing industry consists of a few large firms and many smaller firms. In 1947, seven large firms accounted for over 40 per cent of the packs of fruits and vegetables. By advertising their particular brands on a national basis these larger firms have been able to build up a special market which enables them to charge a slightly higher price for their products. Competition from the many small firms in the industry limits the degree to which these firms can increase prices on their own brands.

THE DEMAND FOR FRUITS AND VEGETABLES

The average Canadian has increased his consumption of fruits and vegetables over the past 10 years. This is particularly true for tomatoes and citrus fruits, somewhat less so for leafy green and yellow vegetables. Consumption of potatoes on the other hand has shown little, if any, change. Some of these changes are indicated in the following table.

TABLE 114

ESTIMATED AVERAGE SUPPLIES OF CERTAIN FOODS USED BY CIVILIANS IN CANADA, 1935-1945

(pounds per person per year, fresh equivalent)

Year	Tomatoes and Citrus Fruits	Other Fruits	Leafy-green and Yellow Vegetables	Other Vegetables	Potatoes
Average 1935-1939	61	86	45	34	200
1940	68	88	42	31	191
1941	77	95	44	27	201
1942	83	70	62	41	199
1943	77	64	40	26	211
1944	109	91	47	56	200
1945	95	77	52	52	190

Source: Appendix II, Canadian Food and Nutrition Statistics, 1935 to 1945, prepared by Nutrition Division Department of National Health and Welfare, 1946.

While in substantial part this increase reflects the recovery of incomes from the depression levels obtaining throughout the thirties, it also seems to be part of a long run increase in the demand for fruits and vegetables. This is associated on one side with a growing realization on the part of the consumer of the food value, especially in the protective sense, of these foods, a fact that has been given increasing

emphasis by health experts in recent years. On the other side it is related to the improvements in the handling of fruits and vegetables by means of better storage and transportation facilities that have occurred over the past 20 years or more. Finally, gradual growth in income levels have made it possible for Canadians to purchase a much wider variety of fruits and vegetables.

During the war demand was increased by a program of vegetable dehydration for the United Kingdom. Cabbages, carrots, potatoes and other root crops were the major vegetables treated in this way. Of cabbages and carrots from 10 to 35 per cent of the Canadian crops was dehydrated and a substantial acreage was planted under contract for this outlet. The Dominion government assisted in the construction of the necessary plants which operated in every province except Saskatchewan. In addition a substantial volume of Nova Scotia apples was evaporated or otherwise processed with the assistance of government subsidies and shipped to the United Kingdom. Most of these exports ceased shortly after the end of the war though the processing of Nova Scotia apples has continued for other reasons.

The export market also supplements the domestic demand for a number of fresh fruits and vegetables. Of these the most important are potatoes, turnips, carrots, apples and blueberries. The export of other fresh fruits and vegetables to our nearest market has been limited by the United States' tariff. While some further reductions in tariff rates occurred under the Geneva Agreements it is still too soon to determine whether this will allow a greater entry of Canadian produce. On potatoes, which have always had a substantial export market, additional restrictions on Canadian exports were imposed during the current year because of a conflict with price support programs in the United States. One of our most important pre-war markets for apples was the United Kingdom, but because of foreign exchange difficulties, this market is now largely closed and Canadian growers have been forced to turn elsewhere. This has created severe difficulties, particularly for apple growers in Nova Scotia, whose product is not well suited to the American market. In over-all terms our exports of fruits and vegetables are much smaller than our imports. In 1946 they amounted to less than one-quarter of the value of our imports of fruits and vegetables.

THE DETERMINATION OF PRICES FOR FRUITS AND VEGETABLES

For many fresh fruits and vegetables short run variations in demand may have a greater effect on the price in many market areas than the supply available. Because of the perishability of the product, prices tend to be fixed at a level which will clear the produce on the market within a short period of time. This often leads to sharp fluctuations in price from day to day and from week to week. But excessively high or low prices in any one market are unlikely to prevail for any length of time. High prices will attract an increased supply from other areas whereas low prices will cause a diversion of supplies to other markets. Because of

the availability of large American supplies this analysis applies to the Canadian market as a whole. Over-all Canadian demand is small relative to the total American supply, so that as long as imported supplies are freely available Canadian prices cannot rise much above levels prevailing in the United States market. To some extent the availability of the American market will also keep Canadian prices from declining, although for most of our produce the higher United States tariff makes this type of adjustment less effective.

While an inflow of American supplies may occur quite rapidly, adjustments in domestic supplies require at least a year or longer. In any one year, of course, the size of the Canadian crop is highly dependent on favourable weather during the growing season. But given a good year, the supply of most vegetables and many small fruits can be increased substantially within a year. If prices are unfavourable, the acreage planted can be sharply reduced in a similar period of time. For the tree fruits, adjustments in supplies requires a much longer period of time. New fruit trees take a number of years to reach the bearing stage. Moreover once trees are in production, they continue to bear fruit for many years regardless of unfavourable prices. For example, in Nova Scotia apple production has continued in large volume despite the loss of the important United Kingdom market. Adjustment to changed market conditions is being aided here by a government program to encourage a reduction in the number of trees and the grafting to the remaining trees of varieties of apples more suited to the United States market.

The factors determining the prices of most Canadian fruits and vegetables are the size of the domestic crop, the level of prices prevailing in the American market as well as the volume of domestic demand. Although imports are restricted by higher rates of duty during the period when the Canadian crop is being marketed, they still exert some effect on prices. For many crops a substantial part of the fruit or vegetable in question is purchased by the canner and as we have pointed out above, this demand competes with the fresh market for the growers' produce. But the canner must determine the price he can afford to pay in the light of prospective consumer demands over the entire succeeding year. During this period of time his product will have to be sold in competition with imported fruits and vegetables, both fresh and canned. For this reason the current prices in the United States market will influence the price the canner is willing to pay and this in time will have some effect on the price of fresh produce.

Within the limits set by the competition of American supplies and the availability of the American market for the export of some products, the demand and supply situation in the domestic market will determine the prices of fruits and vegetables. When industrial employment and incomes are high the demand for fruits and vegetables will be good and prices will be favourable. When employment and incomes in urban areas fall, the reverse will be true. With a given level of demand a large

crop is likely to bring lower prices while a small crop will yield higher prices. The cost of harvesting and marketing the crop will also affect prices. These may be fairly high for crops such as strawberries where labour costs for picking are high and quite low for others such as potatoes which are more adapted to mechanical harvesting.

To a marked extent the larger cities such as Toronto, Montreal, Winnipeg and Vancouver, have tended to become focal points for the determination of prices in the surrounding area. In the words of one witness before the Special Committee: "The price setting market for Ontario is the Toronto wholesale market. Toronto and Montreal set the prices for all eastern Canada".¹ In most of these cities there are a large number of buyers and sellers and, in addition, the cities are centres for the distribution of imported produce. Prices in adjacent markets will be set with reference to the prices reached in these larger cities since local supplies can easily be diverted from one market to another.

The evidence given before the Special Committee on Prices indicates that most wholesalers feel the prices set in these markets are highly competitive. One witness expressed it as follows:

"No individual I would think sets the market price. I think the market price is the result of a number of counter-balancing factors. We do not arrive at the market price until we arrive at that point where supply and demand are roughly equalized or where there is a steady movement of merchandise. If merchandise moves too slowly the price is too high. If it moves too rapidly the price is too low and when you reach that point where there is, let us say, a steady movement, or just sufficient buyers to take the produce from the market, or conversely, just sufficient produce to satisfy demand, we have the market price."²

In such a situation most of the witnesses felt that there was little that the individual grower, wholesaler or retailer could do either to keep prices below the market level at one time or to raise them above this level at another.

PRICES AND SUPPLIES IN THE PERIOD 1939-1948

During the war period all agricultural prices increased sharply, the index of farm prices advancing from 100 in 1935-1939 to 181 in 1945. In the case of fresh fruits and vegetables farm prices increased rapidly from 1939 to 1943, but remained fairly constant from 1943 until the end of the war. As the brief which the Canadian Federation of Agriculture presented to us emphasized, the rise in farm prices which occurred during the early years of the war was required to overcome the depressed conditions prevailing in agriculture during the thirties.³ Thus it may be assumed that the price increases in fruits and vegetables during the period 1939 to 1943 were not excessive. Table 115 shows the indexes of farm prices for all agricultural products together with the indexes applicable to fruits and vegetables.

¹Evidence, Special Committee on Prices, p. 2770.

²Ibid., p. 2867.

³Evidence, Royal Commission on Prices, p. 2179.

TABLE 115

INDEX NUMBERS OF FARM PRICES OF AGRICULTURAL PRODUCTS AND OF FRUITS AND VEGETABLES, 1940-1948

(1935-1939 = 100)

Number of Items	Agricultural Products	Fresh Market Fruits	Fresh Market Vegetables	Fruits for Processing		Vegetables for Processing	
					Subsidy Portion		Subsidy Portion
1935-1939	100	100	100	100 ^a		100 ^a	
1940	97	98	100	100		104	
1941	110	124	136	138		113	
1942	133	151	155	154		132	(15)
1943	158	233	209	248	(74)	151	(28)
1944	172	210	187	242	(64)	159	(35)
1945	181	246	194	265	(68)	165	(35)
1946	193	234	180	254		181	
1947 ^b	204	236	175	259		195	
1948	242 ^c					218	

a) 1937-1939 base.

b) Estimated, except agricultural products index reported.

c) Jan.-Sept.

Source: Dominion Bureau of Statistics, Ottawa.

Governmental Price and Supply Controls

The general price ceiling regulations of December, 1941 applied only to processed fruits and vegetables. Fresh fruits and vegetables, along with certain other goods which have high seasonal price variations, were exempted from the original controls. However, to avoid sharp price increases, the 1941 crops of potatoes and onions were put under ceilings. The general principle in establishing ceilings on fresh fruits and vegetables was not to do so until advancing prices were imminent.

Despite the administrative difficulties involved because of standards, seasonal price variations, regional price differentials, and perishability, it was found necessary to bring apples, grapes, peaches, pears, plums, carrots, cabbage, parsnips and turnips under specific ceiling controls in 1943. Strawberries, raspberries, cherries, apricots were controlled in 1944. Price ceilings on some domestic crops applied only during their marketing seasons. Of the imported fruits, oranges were controlled first in December 1942, at which time subsidy payments were also initiated.

In 1942 and in following years subsidies were paid to vegetable canners to permit them to pay higher prices to growers to compensate for increased costs than would otherwise have been possible under the ceiling. Similar subsidies went into effect on canned and processed fruits in 1943. On the whole, subsidies were employed to a very limited extent on fresh fruits and vegetables, and then mainly on imported items. In this connection it should be noted that generally import duties and other taxes were not imposed thus permitting the sale of fresh fruits and vegetables at prices lower than otherwise would have prevailed. The amount spent on subsidies for both fresh and processed fruits and vegetables from the beginning of the Wartime Prices and Trade Board program until December 31, 1946, was \$12,200,486.

As in almost all fields it was necessary to accompany price controls on fresh fruits and vegetables by complementary supply controls. These were most comprehensive in the case of imported fruits and vegetables, and especially on those subject to subsidy. The fruit and vegetable industry was also subject to the operation of a policy of equitable distribution set up by the Wartime Prices and Trade Board which specified distribution on a basic period pattern. This policy which has been referred to in more detail elsewhere,¹ helped to ensure that all areas got a fair share of the product.

Price ceiling regulations continued for fresh vegetables through 1946, general decontrol being effected on January 13, 1947. Fresh fruits were partially decontrolled in July, 1946, and entirely decontrolled in January, 1947. Processed fruits and vegetables were released from controls during the late summer and autumn of 1946. The government's general policy of releasing control on commodities as supply became more favorable was followed in this industry. All domestic fruit crops, and nearly all vegetable crops were larger in 1946 than in 1945, with

¹See Chapter 3, Vol. II, Price Control and Rationing.

the result that there was little increase in the prices of these commodities following decontrol.

On November 17, 1947, the Dominion government took restrictive measures against imports of fruits and vegetables, as part of its program to alleviate the foreign exchange difficulties which Canada had encountered. Imports of all United States fruits and vegetables with the exception of citrus fruits, apples, potatoes and onions were prohibited. These latter items were restricted in volume by import quotas. For example, importers were limited in their imports of citrus fruits to 50 per cent of the value imported during the year ended on June 30, 1947. In February and March, 1948, there was a certain easing of these controls, and some further relaxation occurred in October, 1948.

Due to the sharp increases in prices which occurred following the introduction of import controls, the government re-imposed ceiling prices on the principal canned fruits and vegetables in November, 1947. Further ceilings were imposed in the period January to May, 1948, on grapes, cabbage, citrus fruits, carrots and new potatoes.

Prices and Financial Returns After Decontrol

As we have just indicated, during the winter of 1946-1947 and throughout most of 1947, prices of fruits and vegetables remained fairly constant, approximately at the levels prevailing under price control. The size of the 1946 crop and the considerable volume of imports were sufficient to prevent any further rise in price at that time. It was only after the import control program was introduced in November, 1947, that prices began to rise sharply.

The severe restrictions on imports of fruits and vegetables together with a reduction in the size of the domestic crop in 1946, meant a considerably diminished supply of fruits and vegetables for Canadians. In these circumstances it was almost inevitable that some increase in prices would occur.

The question arises, who secured the gains from such price increases? On the basis of the evidence before the Special Committee, it appears that the gains on domestic produce were divided largely between grower and wholesaler, depending on who held title to the product at the time the emergency controls came into effect. Mr. M. M. Robinson, Secretary-Treasurer, Ontario Fruit and Vegetable Growers' Association, stated that the bulk of Ontario grown celery was in the hands of wholesalers but that a large proportion of Ontario potatoes, turnips, carrots, cabbage and parsnips was in the hands of growers.

But the wholesalers' gains were not confined to the stock they held on November 17. The evidence presented to the Special Committee by representatives of the wholesale trade shows that there was a considerable widening of mark-ups and margins on fruits and vegetables during the winter of 1947-1948. These higher than normal mark-ups applied particularly to imported fruits and vegetables and resulted in sharp increases in prices to consumers.

Several representatives of the wholesale trade contended that the higher mark-ups were necessary to offset the reduction in the volume of supplies caused by the import restrictions. However, the evidence indicates that the increased margins "were more than sufficient to compensate for losses in volume, with the result that higher than normal profits were earned during the winter months of 1947 and 1948".¹ These higher mark-ups and margins on imported fruits and vegetables yielding larger total profits meant higher prices to the consumer. A specific illustration can be given in the case of oranges. The evidence indicated that the margin between the laid down cost of California oranges (size 288) to wholesalers and the retail selling price increased from 12.4 cents per dozen at the beginning of November, 1947, to 18.5 cents in December. The margin remained close to this latter figure until February, 1948, when price ceilings were re-imposed on citrus fruits. After the re-imposition of the ceilings the margin fell to 12.0 cents at the beginning of March and to 10.4 cents at the beginning of April.¹

Thus imported fruits and vegetables during the period November, 1947, to February, 1948, provide a clear-cut illustration of unduly enhanced prices to consumers through increased mark-ups and margins in the distributive trades, in a restricted supply situation. That these operations resulted in greatly increased profits to distributors in this trade is clear from the following data. A comparison of the net operating profit (before taxes on income) earned by six fruit and vegetable wholesalers, three operating in Toronto and one each in Winnipeg, Vancouver and Sydney, Nova Scotia, for the months of November to March shows an increase from \$80,904 for 1946-1947 to \$165,539 for 1947-1948.¹

No evidence was presented before the Special Committee on Prices showing that chain wholesalers or chain retailers took any special advantage of their size, or the fact of the integration of their operations. In fact, the profits taken by the fruit and vegetable procurement agency of the only retail chain organization examined by the Special Committee increased from 1939 to 1947 much less than was the case for other wholesalers. Furthermore, the evidence shows that in the period following the imposition of import restrictions the retail stores of this organization tended to give the consumer the benefit of any undue gains this organization might have been in a position to keep for themselves.² Thus their profit in the period December, 1947, through March, 1948, showed a general tendency to decline below the levels of the same months one year previous.

High prices continued for most fresh fruits and vegetables until the summer of 1948, when the domestic crops began to be marketed. Canadian production was larger in 1948 than it had been in 1947, because of more favorable climatic conditions and the effect which high prices had in inducing growers to increase the acreage devoted to fruits and vegetables. This increase in Canadian supply, together with relaxations of import controls may be expected to keep prices at a lower level throughout the winter of 1948-1949.

¹Report to the House, Special Committee on Prices, pp. 3941-42.

²Evidence, Special Committee on Prices, p. 3291.

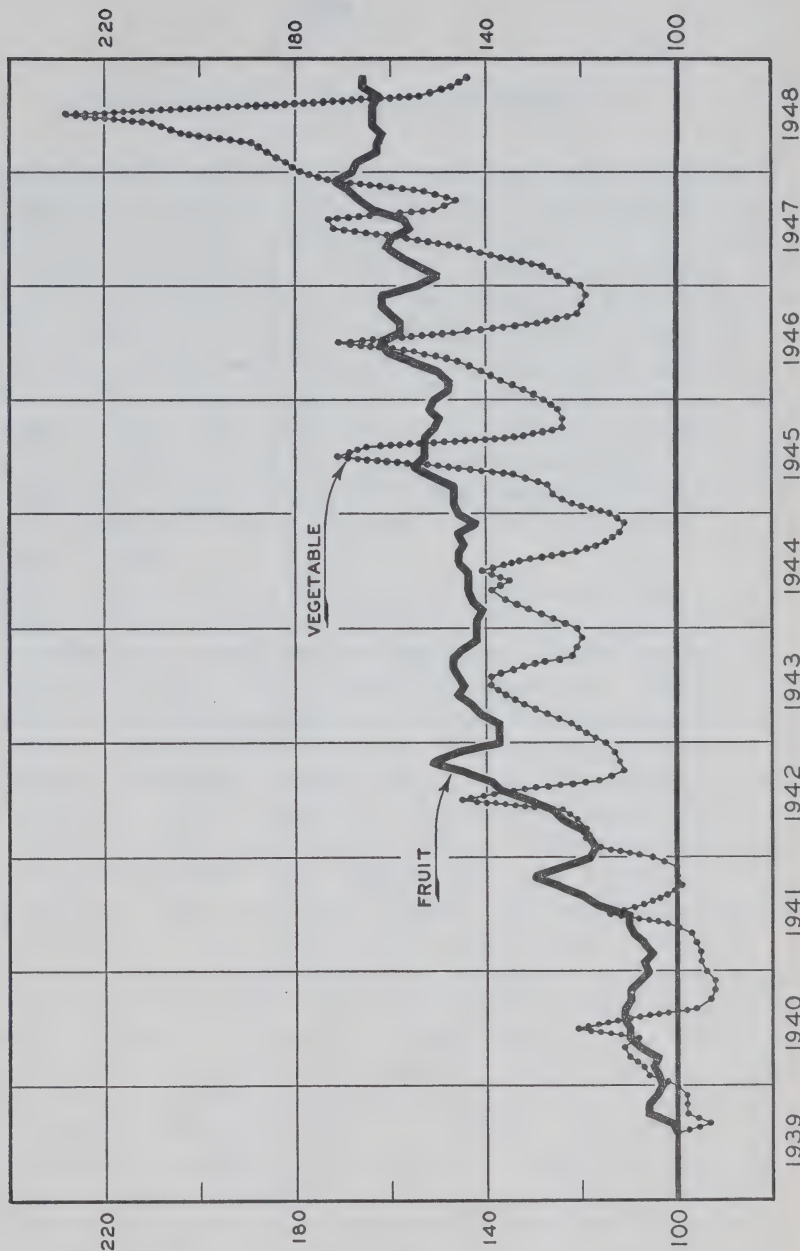
SUMMARY AND CONCLUSIONS

Prices of fruits and vegetables rose rapidly from depressed conditions in 1939 until 1943. From 1943 until the end of the war, the prices of these commodities remained fairly constant under price control regulations. In 1946 and early 1947, as the supply of these products reached adequate levels, the government lifted price control regulations in keeping with the general decontrol program. This had very little effect on prices. After November, 1947, however, fresh fruit and vegetable prices moved rapidly upward until the summer of 1948, when a general decline occurred.

The Special Committee on Prices confined its investigation mainly to the period of rising prices in the winter of 1947-1948. From an examination of the evidence presented before the Committee, we have concluded that the price increases occurred by reason of the limitations on supplies resulting from the government's emergency exchange conservation program. The shortage was more acute because Canada's 1947 crop was smaller. No evidence was found of any agreements between members of the industry to raise prices during this period. Consumers reacted to the restriction in supply by bidding up the prices of available fruits and vegetables. There is evidence, however, that some wholesalers in the industry contributed to the rise in prices, by increasing their gross margins in order to compensate, so they said, for the decreased volume of their sales. It seems clear from an examination of the profit position of the wholesalers who appeared before the Committee, that these increases in margins were not altogether necessary to maintain profits.

The government's action in relaxing some of the import controls and re-imposing certain ceiling prices during the winter of 1947-1948 had the effect of stabilizing prices. Prices in this industry did not fall substantially until the summer of 1948 when Canadian production came onto the market.

CHART XIII
 FRUIT AND VEGETABLE RETAIL PRICE INDEX
 (AUGUST 1939 = 100)



Source: Dominion Bureau of Statistics, Ottawa.

6

THE PRIMARY TEXTILE INDUSTRY

THE manufacture of textiles is divided into two main branches, the primary and the secondary industries. The primary industry is engaged in preparing the raw materials for the production of yarn, in spinning or extruding the yarn, in weaving, finishing and dyeing yarn as fabrics, or in knitting the yarn and completing the manufacture of knitted articles. The work of the secondary industry is mainly that of cutting and sewing woven fabrics to produce garments or articles. A small proportion of flat knitted fabrics is sold to secondary textile plants for cutting and sewing into garments or articles, but it should be emphasized that almost all factory knitted goods are made in primary mills where production begins either with the manufacture of yarn or the knitting of yarn and carries through to the manufacture of the finished consumer product.

The primary textile industry is broadly classified according to types of raw materials processed, that is, natural products such as cotton, wool, jute, flax, real silk; and synthetics developed by chemical treatment of materials to produce rayon, nylon, casein, fibre-glass, etc. Cotton, wool, rayon and nylon are the textiles produced and sold to Canadian consumers in greatest volume, and we shall concern ourselves only with these divisions. Canadian production begins with a basic raw material, either of domestic origin or entirely imported. Cotton production begins with a material which is entirely imported, raw cotton. Wool production commences with raw wool of which the domestic wool clip is only a fraction of our requirements. Rayon production begins with either domestically produced wood pulp, or cotton linters which are entirely imported.

The Canadian primary textile industry has been built up with the aid of a heavy protective tariff. The first primary textile industry to be established in Canada was wool; it dates back to the period of French rule. But more than 125 years ago the factory system of production was introduced and it soon replaced manufacture of woollens in the home. Cotton production began as a factory operation; it has experienced a century of growth in this country. Canadians began silk weaving actively in 1922 and turned, in a few years, to the newer rayon fabrics. By 1932, rayon production exceeded that of silk. The rayon industry has grown steadily and rapidly since that year, while the manufacture of real silk has continued to decline and very nearly disappeared during the war. Canadian production of nylon textiles from imported yarns was commenced only in 1940. Almost immediately it was taken up entirely for parachute yarns, shroud lines and other military purposes.

A plant was built with government encouragement for the domestic manufacture of filament yarns. It came into operation in June, 1942, and worked on military contracts throughout the war years. Commercial production was commenced in September, 1945, and the plant was quickly adapted to civilian output.

The primary textile industry has for many years been among the principal manufacturing industries in Canada. In 1945, the net value of its products, totalling \$182 million, led the field. Gross value of production is exceeded only by meat packers and pulp and paper producers. Some 90,000 men and women are employed in primary textiles (1947), the highest of any manufacturing group. Close to half the workers are women. In contrast with steel, paper-making, or meat-packing establishments, textile manufacturing is a light industry. A fairly high proportion of semi-skilled workers, male or female, are required for production lines in the primary mills.

Wage and salary levels in the primary textile industry have always been low. In evidence before the Special Committee on Prices, the union representatives spoke of the entire textile industry as a low-wage group. Mr. Baron, the Canadian Director of Textile Workers Union of America, quoted Dominion Bureau of Statistics figures of April, 1948, to show that, for the primary textile industry, wages were lower than in any other group except tobacco. The nature of work requirements and the high proportion of female labour offer a partial explanation. The extent to which plants are located in smaller centres is also a factor. Like other industrial workers, textile employees have had substantial wage increases since 1939. A Department of Labour survey covering half the primary mills and a larger portion of the production shows an increase in average wage rates between 1939 and 1947 of just over 90 per cent. The most recent earnings are shown in the following table.

TABLE 116

AVERAGE HOURLY EARNINGS, SELECTED INDUSTRIES, 1945-1948

(cents per hour)

	1945	1946	1947	November, 1948
Thread, Yarn and Cloth	48.9	53.2	61.4	77.2
Hosiery and Knit Goods	47.4	50.8	58.3	70.1
Garments and Furnishings	54.5	57.7	63.9	73.9
Manufacturing in General	69.4	70.0	80.3	95.5
Meat Products	67.9	72.9	84.1	103.4
Pulp and Paper	71.8	78.9	93.6	112.3
Iron and Steel Products	70.5	71.5	84.7	104.6

Source: Dominion Bureau of Statistics, Ottawa.

The general and intermediate duties on textiles entering Canada were increased in 1930 and preferential rates were adjusted downwards at the Imperial Conference of 1932. The net effect of these two adjustments was an improvement in the position of the industry. Competition from general and intermediate tariff countries was further excluded by the 1930 upward adjustment, while the later adjustment downward opened opportunities for export trade to Commonwealth markets. Small shipments of rayon fabrics to Australasia and of hosiery and some dresses to South Africa, were the principal pre-war exports. The war brought some expansion and greater diversity in exports of both primary and secondary products. The total export business, however, remains a comparatively slight percentage of production. As a result of these tariff changes a steady increase in production and employment occurred from 1933 onwards. These results are shown in the following table, where it will be seen that in 1933, employment in the primary textiles industry was on a level with 1930. This was in contrast to a substantial drop in employment in other manufacturing industries. By 1939, the employment level in the primary textiles field was 20 per cent above 1930, whereas other main manufacturing groups were only five per cent above the low point of the depression.

TABLE 117

EMPLOYMENT IN PRIMARY TEXTILES AND OTHER MANUFACTURING

(thousands of employees)

	1930	1933	1939	Per Cent Increase 1929-1939
Primary Textiles ^a	55	54	64	+20
Textiles, Total	104	96	121	-16
Other Manufacturing ^b	511	373	537	- 5
All Manufacturing	615	469	658	- 7

^a) Includes production of cottons, woollens, silk, hosiery and knit goods and the dyeing and finishing of textiles.

^b) Obtained by deducting Textiles from all manufacturing.

Source: Dominion Bureau of Statistics, Ottawa.

Latest 1945 Dominion Bureau of Statistics figures on the textile industries of Canada, both primary and secondary, show a total of 2,740 establishments employing 158,000 persons, an increase of 810,000 establishments and 37,000 employees over 1939. Both in net value of production and in total wage and salary payments, the primary sector of the industry accounted for just under 50 per cent of the total.

In 1947, there was a total of 653 primary textile outlets, more than half of the number, including some large producers, located in centres of less than 25,000 people. The industry is concentrated heavily throughout south-western Quebec and southern Ontario. A small number of plants are located in the Maritime provinces and Manitoba, while some firms are now opening up in British Columbia.

In its examination of the primary textile industry, the Special Committee on Prices decided not to cover the fields of knit goods or narrow fabrics. Questionnaires were addressed to all domestic producers of wool cloth and of cotton, rayon or nylon broadwoven fabrics as well as to all Canadian manufacturers of yarns going into these products.

The production of yarns and of fabrics in Canadian primary mills is shown in relation to imports in the following tables. Exports, where they are at all substantial, have been deducted to give the Canadian supply picture. The figures show the comparative importance of the main raw materials in the total textile supply.

TABLE 118

CANADIAN SUPPLY OF TEXTILE YARNS AND BROADWOVEN FABRICS

A. TEXTILE YARNS

(thousands of pounds)

1. COTTON, WOOL AND FILAMENT RAYON

	1936	1939	1942	1946	1947
Cotton					
Domestic Production	131,496	143,790	214,147	162,188	168,216
Imports	5,130	5,679	12,533	9,137	16,000
Canadian Supply	136,626	149,469	226,680	171,325	184,216
Wool					
Domestic Production	30,615	37,408	69,985	64,613	— ^a
Imports	3,434	3,004	2,681	4,298	—
Canadian Supply	34,049	40,412	72,666	68,911	
Filament Rayon					
Domestic Production	13,623	14,197	18,920	18,134	20,562
Imports	1,168	2,920	3,480	5,173	5,379
Canadian Supply	14,791	17,117	22,400	23,317	25,941

2. SPUN RAYON

	1943	1944	1945	1946	
Domestic Production	6,032	6,754	6,872	9,339	— ^a
Domestic Consumption	6,389	6,861	7,413	9,111	—

3. NYLON

	1942	1944	1945	1946	1947
Military Production	222	1,886	730		
Civilian Production			297	1,631	2,401

B. BROADWOVEN FABRICS

(thousands of yards)

COTTON, WOOL AND RAYON

	1936	1939	1942	1946	1947
Cotton					
Domestic Production	245,000	278,836	369,166	267,537	254,280
Imports	90,391	121,031	217,107	218,387	250,000 ^b
Canadian Supply	344,391	397,367	568,473	473,124	552,132
Wool					
Domestic Production	17,542	17,190	27,796	29,270	28,000
Imports	12,021	11,414	13,209	10,919	14,196
Canadian Supply	29,563	28,604	41,005	40,189	42,196
Rayon					
Domestic Production	44,603	51,844	79,589	83,373	88,000
Imports	6,736	8,999	11,804	11,888	19,846
Canadian Supply	50,839	58,774	88,755	91,176	100,105

^a) Advance compilation of these figures discontinued.^b) Unofficial conversion from pounds.Source: Statistical Reports on the Primary Textile Industry in Canada, Wartime Prices and Trade Board.
Figures for 1947 from the Primary Textiles Institute of Canada and Dominion Bureau of Statistics.

COTTON

Sources of Supply

Canada is entirely dependent on imports of raw cotton used in the production of yarns. The United States, which is now the principal import source, has been able to provide an ample supply, though further quantities and special types are obtained from Brazil, India, Egypt and other countries. From this raw cotton, Canadian mills spin about 95 per cent of the yarn used in Canadian production. But the deficiency of five per cent represents finer qualities which Canadian mills, lacking specialized machinery and skilled operators, are not equipped to turn out. They are required for thread and electrical wire insulation and as a component in the production of much knitted cotton hosiery and underwear and a few special woven fabrics.

Unlike the situation in yarns, Canada depends on substantial imports of broadwoven fabrics. Some of these are imported in the "grey", or unfinished state, for further finishing in primary mills. There is also one firm in Canada whose business is largely that of finishing grey goods of both domestic and import origin. This company was not included in the Committee's survey.

Table 119 indicates the extent of Canada's imports of broadwoven fabrics from the United States and the United Kingdom. Shipments from other than these two sources have been relatively unimportant. The table shows a marked shift in the source of these imports and an increase in the proportion of imports. Until 1941, domestic production accounted for about 70 per cent of the supply but thereafter imports were stepped up considerably to meet wartime requirements. Imports rose to 37 per cent of the total supply in 1942 and ranged between 41 and 45 per cent through to the end of 1946. Government bulk purchasing, subsidies and procurement assistance during 1947 succeeded

in bringing in a record volume of fabrics as a cushion against uncertainties of the early months following removal of price ceilings and the government's withdrawal from negotiations for supplies; in that year imports constituted almost 52 per cent of the total Canadian supply.

TABLE 119
APPARENT SUPPLY OF COTTON BROADWOVEN FABRICS
1936-1948

(millions of yards)

	Domestic Production	Imports from U.K.	Imports from U.S.	Domestic Production and Imports	Exports
1936	245	74	16	335	1
1937	266	76	21	363	1
1938	236	64	26	326	1
1939	279	76	45	400	3
1940	327	29	94	450	10
1941	366	44	110	520	17
1942	369	39	178	586	18
1943	318	27	195	540	11
1944	296	10	225	531	7
1945	277	8	196	481	11
1946	268	5	213	486	13
1947	265	8	276	549	16
1st quarter	73	2	82	157	2
2nd quarter	72	2	73	147	6
3rd quarter	59	1	62	122	3
4th quarter	61	3	59	123	5
1948					
1st quarter	67	4	30	101	3

Source: Dominion Bureau of Statistics, and The Wartime Prices and Trade Board.

While Canada has built up a substantial cotton manufacturing industry, it is nevertheless subject to heavy pressures resulting from world production problems and price changes. The supply of raw cotton has not been threatened at any time recently and spinners have been able to secure prompt deliveries and to maintain the required level of inventories in relation to the flow of imports and the rate of production. But price changes of raw cotton can have a telling effect on Canadian prices of cotton products.

The need for imported specialty yarns is greatest among knitters. Uncertainty of supply is likely to be a greater cause for concern than price because of the blending of these yarns with domestic yarns in manufacturing processes. Yet this in turn contributes further to the vulnerability of Canadian producers since the imported yarns are essential types which today cannot be spun in Canadian mills.

The main need for imported fabrics has been for types which could be turned out in Canadian mills if productive capacity were enlarged. True, Canada imported large quantities of English shirtings and other fine fabrics before the war, but acceptable substitute fabrics, using yarns

of reduced fineness, have been obtained from the United States and most such fabrics come within the capabilities of our domestic mills. We do, however, completely rely on the United Kingdom for certain small yardages of technical cloths such as tracing and typewriter ribbon cloth not obtainable elsewhere.

If Canadian primary cotton mills were to supply the entire domestic market needs of yarns and fabrics, reducing dependence on outside sources to a small quantity of specialties, an uninterrupted flow from all present mills amounting to close to double shift capacity would be needed. With war production at its peak, the mills did achieve an output of perhaps 160 per cent of single shift capacity. But this record depended on the utilization of labour on two or three shift operations. Even with top incentives it would appear to be most difficult to duplicate this in peacetime. Therefore, we think domestic production will continue to fall short of total requirements in the years ahead by at least 15 per cent and more probably 25 to 40 per cent.

A fairly large proportion of imported fabrics normally enters Canada in the grey state for finishing in Canadian mills. Trade statistics show an average of 11.5 per cent of total fabric imports imported in this form over the years 1939 to 1947.

Organization of the Industry

The cotton yarn and cloth industry is concentrated heavily in the province of Quebec, which accounts for perhaps two-thirds of the total volume of production, and in Ontario with about 25 per cent. There are only three mills of any significance outside the central provinces, all located in the Maritimes. They are owned and operated by Ontario companies.

The Special Committee on Prices selected five major organizations for special examination, the Dominion Textile Company Limited with its two subsidiaries, Montreal Cottons Limited and Drummondville Cotton Company Limited; Canadian Cottons Limited, and Wabasso Cottons Limited. This group of companies, on the basis of sales, accounts for close to three-quarters of Canadian production. All of them work from raw cotton, while many smaller producers merely weave yarn; therefore, the big five in fact carry out a larger share of total productive operations than indicated by the comparison of dollar sales.

Three additional firms, subsidiaries of Canadian tire and rubber manufacturers selling their output to the parent plants, were analyzed separately. Among the remaining manufacturers, the Hamilton Cotton Company Limited and Cosmos Imperial Mills Limited, stand out as large producers. The investigation covered in all, 23 companies operating a total of 39 mills.

The majority of the Canadian cotton mills are located outside the large cities. This enables the mills to recruit labour at a slightly lower average wage but it may on occasion create a problem when additions to the total labour force are being sought.

The capital requirements for primary cotton mills are fairly substantial, and are gradually increasing. Capital supplied to the industry is almost entirely Canadian with profits and dividends remaining largely in this country. Although the relationship between total capital investment and net value of production varies because of the wider fluctuations in production than in investment, a rough ratio is informative. The total capital investment required by the industry stands above $1\frac{1}{2}$ times annual net product. Fixed capital—land, buildings and machinery—is substantially larger than working capital. The five companies examined employed in 1947 a total capital investment of close to \$50 million. The 11 mills of Dominion Textiles and its subsidiaries accounted for 70 per cent of the capital investment.

Even amongst the five big companies, competition is limited by the fact that all do not turn out identical types of fabrics. The articles made by these firms and reported to the Special Committee on Prices give an indication of the tendency to specialize which is characteristic of the industry. The Dominion Textile Company concentrates on unbleached, bleached and printed goods. Drummondville specializes in tire cord and competes in the export market in fishing twine in which it occupies a monopoly position in Canada. Montreal Cottons predominates in piece-dyed fabrics. Work clothing materials are supplied primarily from Canadian Cottons Limited. Wabasso Cottons gives its main attention to fine yarn fabrics.

In the evidence, Mr. G. B. Gordon, President of Dominion Textile Co. Ltd., stated that his Company and its subsidiaries had slightly over 50 per cent of all the spindles in Canada and between 50 and 60 per cent of the Canadian market.¹ Aside from a special sales staff for the tire manufacturers and the fishing net trade operated by Drummondville Cotton, Dominion Textiles acts as sales agent for its two subsidiaries. In effect, therefore, there is no competition which would force reduction in selling prices. With all the limits on competition resulting from the corporate organization and partial specialization by individual mills it is clear that the level of tariffs and hence imports is a key factor in determining the degree to which competition could force lower prices for goods produced in Canada.

The index of wage rates in the cotton yarn and cloth industry has risen more sharply since 1939 than the average for all manufacturing industries. On a base of 100 in 1939, the average increase has been to 183.3 in 1947 while the figure for the cotton group reached 189.0 slightly below the average level achieved throughout all primary textile establishments (190.0). Nevertheless, according to Table 116 primary textiles generally, including the cotton group, appear to be a low wage industry. Evidence before the Special Committee indicates a generally disturbed state of labour relations in the industry, particularly in Dominion Textiles and more especially perhaps in Wabasso. In addition, the large proportion of female labour in which there is a heavier turn-

¹Evidence, Special Committee on Prices, p. 3532.

over than in male labour means that the cotton industry suffers from a seasonal loss of workers. Furthermore, working conditions in the mills are adversely affected by dust, heat and heavy humidity.

Hours of work in cotton mills in 1944 averaged 49.8 hours per week for men, which was slightly above the average for 40 leading industries (49.2) and the general male average in industry (49.1). The working hours for women were exceeded only by aircraft plants. The female cotton workers' week of 47.1 hours compared with 43.6 hours as the general industrial average and 43.7, the figure for all reporting industries.¹ In the months just prior to the Special Committee's investigation, Dominion Textiles dropped from a 52½ hour work week to a 40 hour week; Canadian Cottons cut from 48 to 44 hours, while Wabasso effected some reduction by dropping the swing shift (from 3 p.m. to 11 p.m.) on Saturdays. According to the evidence, the method of adjusting hours and wage scales has not proven entirely satisfactory to the labour force.

Markets, Pricing and Selling Policies

Canadian cotton production is absorbed into the manufacture of many goods other than textiles. Automobiles, electrical appliances, shoes, furniture and a host of other products include cotton as a component. It has, as well, a variety of industrial uses, for example, paper-makers felts. However the bulk of all cotton fabrics made in Canada goes towards the various clothing items, as well as draperies, sheets, towelling, flannelette, dress materials and other dry goods for sale to the consumer.

Sales of broadwoven cottons are made directly by the primary mills to larger manufacturers and, either directly or through wholesalers, to industrial and other users. There is also a sale to wholesalers both for the retail counter trade and for marketing to very small producers who have no direct buying arrangements with the primary mills. Before the war, the primary producers required certain credentials as to credit risk and demonstrated volume.

Throughout the industry, selling prices are fixed by costing the various components entering into the manufacture of each type of fabric. Replacement prices of raw materials, labour cost at current wage and salary levels, and overhead are estimated and a price is set to permit an addition of profit on each line. It would appear that adjustments in fabric prices are made, as well, by reviewing the total operating picture in relation to individual fabric calculations. Dominion Textiles stated in evidence that their system of inventory valuation was "practically the so-called 'last in, first out' system".² Canadian Cottons Limited operates on the principle of 'first in, first out' coupled with writing down the value of inventory periodically.³ It seems indicated also that the tariff has been quite important in determining what degree of profit the Canadian mills are able to take. Mr. Gordon stated that one organization among the Dominion group would not deliberately underprice another

¹Canada Year Book, 1947, p. 550-1.

²Evidence, Special Committee on Prices, p. 3528.

³Ibid., p. 3569.

in order to shift sales from a type of fabric made by one outlet to a type produced by another of their mills. The implication is that the 11 mills in the Dominion-Montreal-Drummondville group do not compete. And this is supported by the fact that Montreal Cottons uses Dominion as its sales agency, while Drummondville sells only non-competitive products. Mr. Gordon stated and reiterated that the determining factor in setting prices was cost of manufacture. Yet a profit figure is included as part of this cost. From the evidence before the Committee, and in the earlier Turgeon report,¹ it would seem the Dominion Textiles group has for many years been the price leader for the field.

Factors in Price Changes since the Beginning of the War

The most serious wartime dislocation affecting primary cottons was the necessity of transferring the main procurement of imported fabrics from the United Kingdom to the United States. The change in import source was required by the serious situation in Atlantic shipping coupled with the emergency closing of a number of British cotton mills. In July, 1943, Canadian authorities reluctantly agreed that shipments of fabrics should be cut from an annual rate averaging 10½ million pounds through 1937-1939 to about 675,000 pounds. Negotiations for American fabrics were begun immediately with United States officials through the Combined Production and Resources Board in Washington. The change over had to be accomplished speedily. On January 1, 1944, Canada was given an allocation backed by shipment priorities. The allocation included military supplies such as bag cloths, canvas and tire cord, but also heavy quotas of work clothing fabrics, shirtings, print cloths, etc. The allocations which were on a quarterly basis, were revised and re-negotiated year by year to the end of 1946. In that year when shipment priorities were discontinued it became increasingly difficult to ensure full deliveries against the allocations, particularly following the breakdown of United States price controls in July. It was quite evident too, that even the allocations would cease by the year end.

In order to meet what appeared at the time to be a serious potential shortage, bulk purchasing which had already been utilized in part to secure price advantages and to control subsidy payments, was extended to assist in picking up the backlog outstanding on fabric allocations and in building a reserve against the uncertainties of the free market. Through bulk purchase and government assistance to private procurement, Canada succeeded in bringing in a record volume of cotton fabrics during 1947 in spite of a partial withdrawal in mid-year of the government's active support of procurement through subsidies, etc. By mid-November, alarm at the shortage of United States dollars had dictated both a quota limitation on shipments from the United States and serious efforts to speed the re-establishment of the United Kingdom as the principal import source of fabrics.

Receipts of yarns from the United Kingdom continued throughout the war under the highest priorities, together with the small shipments

¹The Royal Commission on the Textile Industry, 1938.

of special fabrics previously mentioned. But supplies of yarns from the United States grew apace from the beginning of the war. Knitting yarns were included in United States allocations set up for Canada from 1944. These yarns could, it is true, have been produced on Canadian spindles, but with the problem of maintaining skilled operators it was more advantageous to concentrate on volume production of coarser counts and to bring in some knitting and weaving yarns of medium fineness from the United States to swell the total supply. By mid-1946, the yarn outlook had become much more favourable than the position on fabrics. Knitters had restored working inventories and their production was rapidly catching up with consumer demand. Retail orders were beginning to taper off. The pressure of yarn shortages had almost disappeared by the date of decontrol and for more than a year have not been a factor in the supply position of cotton knitted items.

As a result of Canada's deficiency in United States exchange, the Emergency Exchange Conservation Act was introduced in November, 1947. As applied to cotton fabrics the provisions of this Act placed a quota limitation on the yardage that could be imported from "hard currency" areas. A subsidiary effect was to force a switch to "soft currency" areas, particularly the United Kingdom, as the principal import source.

At the time the import control regulations were imposed, negotiations had been entered into with the United Kingdom authorities which resulted in the setting of a delivery target by the United Kingdom of 80,000,000 yards of cotton fabrics for Canada in 1948.¹ While shipments from the United Kingdom have increased considerably since the controls were imposed, it is clear from Table 120 that the result for the year will fall far short of the announced target.

TABLE 120

QUARTERLY SHIPMENTS OF COTTON PIECE GOODS TO CANADA
FROM UNITED KINGDOM

(thousands of yards)

Quarter	Amount	Quarter	Amount
1st quarter, 1947	2,058	1st quarter, 1948	3,956
2nd quarter	1,893	2nd quarter	6,608
3rd quarter	1,646	3rd quarter	11,259
4th quarter	2,359	4th quarter	11,862

Source: Dominion Bureau of Statistics, Ottawa. Trade statistics record in pounds converted to yards at the rate of 4.5 yards per pound.

¹House of Commons Debates, May 18, 1948.

The evidence before the Special Committee made it plain that Canada is not receiving anything like the quantities required as a result of the curtailment of United States shipments. Two reasons given for small imports from the United Kingdom are the price factor and the lack of aggressive competition amongst British exporters to recapture the Canadian market.¹ Canadian consumers of cotton fabrics have been living in part off the substantial imports in 1947 and the opinions in the evidence seem to be that there is no solid assurance the United Kingdom can step up shipments to the point of providing ample supplies before the supporting inventories are cut away.

The second key supply factor contributing to the price problem today is the reduced level of domestic production. Fabric output in 1942 reached a peak of 369 million linear yards, an increase of 32 per cent over 1939 or 47 per cent over the 1935-1939 average. Moreover, production in wartime was of weights of cloth which undoubtedly would have yielded a considerably lower yardage per pound than in peacetime. The steady decline in production from 1942 throughout the remainder of the war reflected a sharp drop in direct war orders and a transfer of labour to other industries on more vital war work or to the armed forces. Based on incomplete estimates, war orders slipped off from 127 million yards in 1942 to 104 million in 1943, and in 1944 and 1945 were but a third of this quantity. By the fourth quarter of 1945, military orders had been cut to a negligible amount.

Domestic production in 1946 was off about three per cent from 1945 and fractionally lower in 1947. Moreover, fabric output in the first quarter of 1948 did not equal the yardage produced in the corresponding period of 1947. This situation in broadwoven cottons was not paralleled in other branches of the primary industry nor in manufacturing establishments generally. It is true that yarn output in 1946 was roughly equal to 1945 and rose nearly four per cent in 1947 and continued to climb in the first three months of 1948. Moreover, the mills were converting a larger yardage of imported grey goods. But fabric output has barely recaptured even the immediate pre-war position and is still some 25 per cent below the wartime maximum.

Two of the five companies operate on a year ending March 31; the other three on a calendar year. The variation in products also makes comparison difficult. However, we think the figures in Table 121 on bale openings and on yarn and fabric output measure fairly the relative performance of the several companies.

¹Evidence, Special Committee on Prices, p. 3494.

TABLE 121

CHANGES IN YEARLY DOMESTIC PRODUCTION OF PRIMARY COTTON

(five companies)

	Pre-War ^a	War Peak	War End ^b	Current ^b
A. Bale Openings (hundreds of bales)				
Total for Canada	3,409	4,961	3,627	3,633
Dominion Textiles	830	1,756	1,294	1,184
Drummondville	104	350	302	285
Montreal	191	268	228	240
Canadian	351	525	365	427
Wabasso	385	479	295	251
B. Yarn Production (millions of pounds)				
Total for Canada	141.0	210.9	163.0	168.2
Dominion Textiles	40.3	84.7	64.2	58.8
Drummondville	4.7	16.6	14.5	13.6
Montreal	11.5	16.1	13.0	13.8
Canadian	16.6	25.6	20.0	22.7
Wabasso	3.8	4.8	3.7	3.1
C. Fabric Production (millions of linear yards)				
Total for Canada	264	351	245	254
Dominion Textiles	108	201	140	120
Drummondville	2.4	6.6	5.0	5.7
Montreal	36.2	43.2	35.2	36.9
Canadian	37.1	54.2	45.4	47.8
Wabasso	50.4	59.1	31.5	27.0

a) In the case of Dominion Textiles and Drummondville Cotton, production figures are for years ending March 31. Otherwise, returns cover the calendar year shown. For the pre-war period, the calendar year 1939 has been used or the earlier production year ending March 31, 1939.

b) Similarly, production at war's end covers either 1945 or 1944-1945 because the war ended in mid-1945. In viewing current production the last available full year has been taken, either the calendar year 1947 or the later production year ending March 31, 1948.

Source: Evidence, Special Committee on Prices, p. 3507, etc.

Decreased production was attributed by all witnesses to labour difficulties. At Wabasso mills, where the production drop has been greatest, both plant capacity and technological efficiency of machines has been increased somewhat since 1941. Although replacing of some machinery had brought a slight decrease in plant capacity at Dominion Textiles, yet, neither in their case nor in any other was the limitation on plant given as the cause of current difficulties. Mr. Gordon, in his evidence, stated that the chief cause of lower production was the problem of securing labour to build up the second shifts in the mills. In his testimony, he indicated that the work week during the war had run to 48 hours for the day shift and close to 60 hours on the night shift. After the war, a 40 hour week was introduced with overtime shifts operating on Saturdays. Because Quebec law requires a half-hour break during each shift, the possibility of operating three shifts a day was ruled out and the company had tried to build a full production for the shorter work periods. But this aim has not been realized by Dominion Textiles. Mr. Gordon estimated that his own company was operating on not much over 60 man-hours per week owing to difficulties in manning the shifts, particularly the night shifts. Magog and Montmorency mills were better off than mills located in Montreal. At the Merchants branch in Montreal, for example, the day shift in June numbered 645 hands; yet, in spite of continuous efforts to recruit additional workers, only 166 signed up for the second shift.

Added to the problems of recruiting labour, absenteeism was stated by almost all witnesses to be a severe handicap. Figures for the first five months of 1948 for seven Dominion Textiles mills showed absenteeism running at perhaps four per cent through the week on the first shift and in the neighbourhood of seven per cent on the second shift, but rising to some seven per cent on the Saturday morning and close to 12 per cent on the late Saturday shift. Throughout the summer the average is higher. Canadian Cottons stated that they were beginning to find help much easier to obtain except at their Hamilton plant. While a rough figure of six per cent absenteeism was given by Canadian Cottons, production is nonetheless being brought up considerably.

In Wabasso, as we have already noted, production declines appear to be the most serious of the five companies considered. Absenteeism was stated to be much heavier in their Three Rivers mill where no union exists than in Shawinigan Falls.

With regard to absenteeism generally Mr. Gordon indicated that higher wage rates coupled with present income tax levels were responsible to a certain extent. The validity of his opinion gained backing by the amount of absenteeism, without reason, throughout the week. But regarding failure to report on Saturdays Mr. Ledoux, the Catholic union president, contended that workers absented themselves on weekends to take more remunerative part-time employment. He also thought the schedule of hours adopted by Dominion Textile and Wabasso Limited did not encourage a full turnout at the end of the week.

Mr. Baron, the Canadian director of the Textile Workers Union of America, went further and denied categorically that "workers on incentive will work up to a certain point and then stop because they do not earn a sufficient amount of money".¹ He added that absenteeism is greater in the lower-paid industries but is also high generally, due to a post-war let-down following heavy hours of work during the war. Mr. Baron felt that the most important condition governing absenteeism was labour relations. He reminded the Special Committee that they had not the same complaint from Canadian Cottons as the other companies and pointed to Wabasso as in an even less satisfactory position than the Dominion Textiles group.

Operations under Price Control and Problem of Decontrol²

Shortly after the over-all price ceiling was adopted, the Prices Board established weaving yarn and fabric prices at the level of February, 1941. In the face of sharply rising raw cotton prices, an agreement was entered into with the primary mills for the payment of subsidies on their purchases of raw cotton. The agreement limited subsidy payments to the amount needed to reduce the cost of raw cotton to levels appropriate to fabric and yarn prices in February, 1941. But three factors had combined to eliminate any substantial payments before 1944. First, with government encouragement the trade accumulated large inventories of raw cotton during November, and December, 1941, at advantageous prices. Second, the "raw cotton agreement" as it came to be known, limited profits on over-all operations of the company to 116-2/3 per cent of "standard profits".³ Finally, the heavy military orders were ex-ceiling and balanced the profit limitations on civilian production. By 1944, however, direct war orders were much reduced and it was necessary to pay heavy subsidies on raw cotton which now cost about 25 per cent more than in December, 1941. The subsidy for raw cotton brought the cost down to 11.4 cents per pound for 15/16 middling, the staple and grade on which standard quotations are usually based. Effective March 1, 1946, in view of the tremendous subsidy bill, and as a step towards decontrol, the subsidized price was raised to 15.4 cents per pound. Eleven months later, the United States support price of 24.4 cents was adopted and effective four months after, June 2, 1947, it was again increased slightly, to 27.2 cents per pound. At the time of decontrol, the price was running at about 32 cents per pound.

A fairly similar subsidy arrangement governed the importation of cotton fabrics. It differed from the raw cotton subsidy in that it did not include the limitation on profits, though subsidy payments depended on prior approval for proposed importations. Bulk purchasing by the Commodity Prices Stabilization Corporation, a Crown company, was another special feature. In 1943, about 37 per cent of total fabric imports from the United States was secured by bulk purchase. The list of fabrics eligible for subsidy, which was always carefully scrutinized,

¹Evidence, Special Committee on Prices, p. 3881.

²Cf. the Annual Reports of the Wartime Prices and Trade Board.

³See Chapter 3, Vol. II. Price Control and Rationing.

was narrowed down very substantially through 1947 coincident with the selective removal of these goods from price control.

On September 15, 1947, when price controls ended, the Prices Board agreed to continue paying subsidies on raw cotton on the understanding and to the extent that the primary mills filled all outstanding orders for fabrics at ceiling prices. Subsidies were also continued on imported fabrics where arrangements had been completed for importation under subsidy before decontrol. Moreover, subsidies were not recovered on fabric inventories, again on the understanding that ceiling prices obtaining at decontrol would be observed in the sale of these inventories.

This informal price decontrol arrangement coupled with the accumulation of fabric imports throughout 1947 must, we think, have lessened the shock of government withdrawal from controls over cotton textiles. But nevertheless, a number of significant shortages had arisen, and some persisted well towards the time of decontrol. Because of this, the mills for some time after decontrol continued to allocate deliveries to their customers on the basis of 1941 shipments. In many cases, the cotton mills have continued these allocations in order to satisfy current demands as equitably as possible.¹

Table 122 shows the operating income as a component of the sales dollar of the five companies, from quarter to quarter. In balance, the operating income of the group in the first quarter of 1948, was about double the proportion of the sales dollar in the final quarter of 1947, but still only about half the proportion in the second and third quarters of 1947. Therefore, although primary cotton manufacturers might have been able to get along with less operating profits, their actions can hardly be said to have contributed to unwarranted price increases in relation to accepted controlled prices. The operating income for each dollar sale for the five quarters ended March 31, 1948, is shown hereunder.

TABLE 122
OPERATING INCOME AS A PROPORTION OF ONE DOLLAR
OF SALES, FIVE COTTON MANUFACTURERS,
CANADA, 1947 AND 1948

(dollars)

	1947				1948
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter
Dominion Textile Co., Ltd.	.097	.166	.158	.007	.009
Drummondville Cotton Co., Ltd.	.078	.113	-.003	.047	.033
The Montreal Cottons Ltd.	.069	.066	.072	.089	.166
Canadian Cottons Limited	-.003	.031	.121	.016	.106
The Wabasso Cotton Co., Ltd.	.123	.114	.098	.101	.094

Source: Evidence, Special Committee on Prices.

¹Evidence, Royal Commission on Prices, p. 1801.

Related to their capital employed, the net profit before inventory reserves adjustments but after taxes on income would be as shown in Table 123 for the years 1946 and 1947 for each of the companies.

TABLE 123
NET PROFIT AS A PERCENTAGE OF CAPITAL EMPLOYED,
FIVE COTTON MANUFACTURERS,
CANADA, 1946 AND 1947

	1946		1947	
	Net Profit Amount (dollars)	Per cent of Capital Employed	Net Profit Amount (dollars)	Per cent of Capital Employed
Dominion Textile Co., Ltd.	2,497	7.3	2,675	7.6
Drummond Cotton Co., Ltd.	344	7.9	321	5.8
Montreal Cottons Limited	518	5.8	596	6.5
Canadian Cottons Limited	759	5.4	790	5.4
The Wabasso Cotton Co., Ltd.	341	6.1	386	6.7

Source: Evidence, Special Committee on Prices.

The primary cotton industry has experienced a sharp rise in the cost of its imported raw material since February, 1947, the time of the first reduction of the raw cotton subsidy. The price of imported grey goods for conversion has also risen substantially—even more than the cost of raw cotton. Finished fabrics have gone up more still, so that the pressures on the secondary industry are greater than on the primary. The removal of the tariff on cotton fabrics coming from the United Kingdom and the reduction by a similar amount in the United States tariff may lessen the effect somewhat.

The percentage of imported fabrics is high enough to influence the domestic level of prices. While Canadian primary mills have contributed to the shortage by their inability to maintain production, it is equally noteworthy that they were able to maintain prices in most cases well below the cost of laying down comparable United States fabrics in Canada. The spread between domestic mill prices and the landed cost of United Kingdom materials was even more marked. For example, prior to the tariff changes in May, 1947, higher grade combed white shirting fabrics of Canadian manufacture were selling for 40½ cents per yard. The Canadian cost of United States fabrics ranged between 60 and 66 cents, while United Kingdom fabric was quoted at 72 cents. Other differentials were less striking but in all examples cited before the Special Committee on Prices, United States fabrics cost more in Canada than comparable goods of our own make, while the additional cost of United Kingdom goods was generally more than double the Canadian-United States differential.¹

¹Evidence, Special Committee on Prices, p. 3494.

In its report to the House of Commons in June, 1948, the Special Committee on Prices "found no evidence of hoarding",¹ and, moreover, stated that "on the whole, price increases had not been unreasonably out of line with increased costs".² While these views are supportable from the evidence, we think it doubtful that the industry is, as the Committee went on to say, "highly competitive".² The Turgeon report certainly denies that view. But any suggestion of monopolistic tendencies which can be made about the primary cotton industry is largely outside the scope of our inquiry which specifically relates to the cause of high prices following decontrol. And in this connection we are inclined to agree with the Special Committee.

WOOL

The primary wool industry in Canada must obtain nearly 95 per cent of its raw wool from import sources. Not only is our wool clip very small, but the quality is not suitable for the yarns and fabrics in greatest demand. Commonwealth sources supply the bulk of Canadian requirements. Normally, these are purchased through wool auctions, but during the war the British government brought raw wool under its control and procurement became a matter of government negotiation.

Yarns for both knitting and weaving are of two main types—spun either on the "woollen" or the "worsted" system. For worsted yarns, the raw wool must undergo a special mechanical process. Fibres of good length and fineness are combed and straightened and drawn off the rollers as a continuous sliver known as wool "tops". These tops can be spun into a finer quality of yarn since the wool fibres lie parallel in the strands. Canada produces about 40 per cent of the wool tops used in worsted yarns and imports the balance. The preference for worsted clothing is growing and has, no doubt, been stimulated by continuing prosperity and the developing domestic production of worsted cloth. Canada's primary industry produces between 90 and 95 per cent of the yarns used for weaving and knitting. The imports are entirely worsted yarns and these make up some 25 per cent of our total worsted yarn supply. Woollen and worsted yarns both go into woven and knitted products. The proportion of woollens to worsteds made in Canada recently has averaged about four to one.

The knitting industry absorbs a heavier proportion of worsted yarns than the cloth industry; thus while its total use of raw wool is considerably less, knitters do not fall far behind the weavers in total consumption of the worsted type yarns. For hand knitting yarns, worsteds are much preferred and more than two-thirds of the supply are of this type.

Frequently in the manufacture of woven suitings, dress goods, overcoatings and cloaking fabrics, worsted and woollen yarns are used together to produce mixture fabrics. Throughout the war, output of mixture fabrics rose well above the total yardage of worsteds. But the preference

¹Evidence, Special Committee on Prices, p. 3945

²Ibid., p. 3944.

for worsted cloth has led to renewed concentration on this type as the supply of worsted yarns has improved.

While the only yarns Canada imports are worsted yarns, domestic fabric production is supplemented by imports of both woollens and worsteds. Table 124 shows the extent of imports in the total supply including shipments of worsteds from Great Britain. Before the war, fabric imports were running well over 40 per cent. While the quantities were actually increased in war years, domestic production rose still higher. At present, about one-third of the Canadian fabric supply comes from abroad. The main source of these goods has always been the United Kingdom.

TABLE 124
CANADIAN SUPPLY OF WOOL FABRICS

(thousands of yards)

Calendar Year	Domestic Production	Imports from Great Britain		Total Imports	Total Supply
		Worsteds	Total ^a		
1937	18,088	4,672	13,171	13,674	31,762
1938	14,346	3,977	10,480	10,780	25,126
1939	17,190	4,826	11,131	11,414	28,604
1940	26,394	7,446	14,244	14,788	41,182
1941	26,770	5,697	14,030	14,159	40,929
1942	27,796	4,790	12,835	13,209	41,005
1943	26,363	4,556	11,873	12,930	39,293
1944	24,225	3,003	8,639	8,937	33,162
1945	27,567	3,393	8,194	8,316	35,883
1946	29,270	3,890	10,656	10,919	40,189
1947 ^b	28,000	3,278	10,256	14,196	42,196

a) In addition to woven woollens and worsteds, includes small yardage of knitted fabrics.

b) Estimated.

Source: Evidence, Special Committee on Prices, p. 3765.

A comparison of the dependence on outside supplies at each level, the raw product, yarn, and woven fabric, would seem to suggest that the primary wool industry is very nearly as vulnerable to the price and supply uncertainties of the world market as the cotton industry. The Canadian textile industry is almost as dependent on import sources for raw wool as for raw cotton and, while the world supply of both has been ample, raw wool has not always been fully available in the better qualities sought by Canadian spinners. As in cotton, the yarn deficiency is slight, but its importance is out of proportion to its size—being entirely in worsted yarns. Moreover, about 60 per cent of the worsted yarns we do spin must use imported wool tops. And finally at the fabric level, Canada imports almost as large a proportion of total supply of woollens as of cottons.

But between these two branches of primary textiles, there are important differences. The demand for worsteds at the time of the

enquiry was continuing to outrun supply. And worsteds, in general, are not absolutely essential; it is well-established consumer preference which dictates a heavy proportion of worsteds and if this demand cannot be filled, the alternative of woollen cloth is, after all, available. Again, the Canadian industry apparently can more easily expand output of wool fabrics than of cotton fabrics. The wool industry is subject to the fluctuations in prices of a world market and, like prices of raw cotton, raw wool and tops have substantially increased in price through the war years. But there are differences. The increases in wool prices have been less extreme in the low and medium grades, while worsteds have gone up much more substantially than woollens.

Organization of the Industry

In March, 1948, there were 169 establishments in the wool textile industry but less than half were engaged in production of wool cloth. The Special Committee on Prices secured and summarized returns from three larger companies and 51 smaller establishments. On the basis of dollar volume of sales, the three firms selected for special examination accounted for 22 per cent of the total business from January 1, 1946 to March 31, 1948. Dominion Woollens and Worsteds Limited, with mills at Peterborough, Hespeler and Orillia, Ontario, was first with well over 10 per cent; Ayers Limited at Lachute Mills, P.Q. made up seven per cent of dollar sales, while Paton Manufacturing Company Limited, Montreal, accounted for 4.4 per cent. Other significant producers are Barrymore Cloth Company Limited in Toronto; Collins and Aikman of Canada Limited, Farnham, P.Q.; Montrose Worsted Mills Incorporated, Montreal; and Slingsby Manufacturing Company Limited located in Brantford. While these and some other firms have a substantial output, most of the business is split up among several producers. Geographically, too, the wool industry is less concentrated than cotton. Among the companies circularized, four are located in the Maritimes, two in British Columbia, one in Manitoba, and the remainder in Ontario and Quebec. Toronto has a few plants, Montreal a smaller group, but the bulk of the mills are scattered through Ontario and some Quebec towns. Other minor operators, not covered by the questionnaire, are located both east and west and in the central provinces. It can be seen that the concentration of business in the primary wool industry is less than in primary cottons.

The production undertakings of even the big three plants differ markedly. Dominion Woollens is engaged first in wool combing (to produce tops) for their own use and also does some commission combing for other mills. They spin worsted yarns, sell part to other weavers and knitters, part as hand knitting yarns, and keep a large part for their own weaving operations. They dye and finish their own fabric for sale to the cutting-up trade. The operations of Paton Manufacturing are similar except that they do not undertake wool combing. Ayers Ltd. testified to sales of over 45 per cent producers' goods, principally paper-

makers' felts. Their output of fabrics is heavily concentrated on woollens rather than worsteds, and they manufacture woollen blankets in large volume.

Although the three major firms are not fully competitive in their products, there is competition in the main products of the woollen cloth group. Canadian Wool Combing Ltd. at Acton, Ontario, which was set up in 1942 with government encouragement, is competing with Dominion Woollens in the production of wool tops. It is financed entirely with private capital and has affiliated companies in the knit goods industry.

In relation to the net value of production, the wool cloth industry uses less capital than the producers of cotton yarn and cloth. The difference lies not in working capital but in the amount which must be tied up in plant and machinery. It offers a partial explanation of the greater number of firms engaged in wool than in cotton cloth production.

Women constitute more than 40 per cent of the working force in the wool cloth trade, about the same proportion as in the cotton group. The regular working hours of both male and female employees have been shorter. Wage and salary levels of the total working force have also been above primary cotton employees and hold a position mid-way between cottons and rayons. Since 1939, increases in wage rates in the wool yarn and cloth branches topped the record in all other sections of the textile industry and placed third amongst all manufacturing industries. From an index of 100 for 1939, the figure rose to 209.8 in 1947, compared with 190.1 as the primary textiles average and 183.3 the average for all manufacturing groups. This rate of increase may have contributed to higher prices but has also probably aided the level of production.

Factors in Price Changes Since the Beginning of the War

At the outbreak of war, the United Kingdom entered into an agreement, to end one year after the war, to purchase the entire Australian and New Zealand wool clips. Bulk purchase from the United Kingdom soon was introduced in Canada with crown corporations purchasing our small domestic clip and buying all our imports of raw wool, tops, and yarns from the United Kingdom in addition to a considerable portion of fabric requirements. Shipping problems called for heavy stockpiling of raw wool by the Canadian Wool Board, a crown corporation controlled by the Prices Board.

These steps, which were taken before price controls were introduced, enabled the government to hold ceilings when they were imposed without serious difficulties by selling supplies at prices appropriate to established ceilings and absorbing the trading losses. Rapid expansion took place in the operations of the mills on war orders which were negotiated ex-price ceiling. In the two peak years, 1942 and 1943, government requirements actually exceeded one-third of the total yardage used in Canada. In 1944, when requirements for the services dropped off, Canadian mills utilized their enlarged productive capacity on orders for U.N.R.R.A.

Direct war work required close control and licensing of the whole production turned out by this branch of the primary industry. To encourage greater output of worsteds in view of sharper cost increases in this field, domestic subsidies were paid to worsted spinners and to weavers of worsted fabrics.

Towards the end of the war, the licensing control was relaxed and replaced by a scheme of production directives on garment manufacturers. These were designed to ensure a full flow of fabrics to basic garments before cutters-up turned to less essential types of garments. About the same time, the Prices Board negotiated with the United Kingdom for a substantial additional fabric allocation to be used for production of men's suits for sale on priority to persons released from the armed forces.

The protection of supply channels through bulk purchase, and the high volume of war contracts which boosted cloth output, permitted comparatively early decontrol of wool. The first step was the lifting of subsidies from raw wool and tops in February, 1946. The domestic subsidy on worsted yarns was cancelled on March 1st of the same year and on worsted fabrics one month later. At the same time upward adjustments in fabric ceilings reduced the need for import subsidies, though a rise in the prices of imports themselves partly offset this benefit.

Although the supply of worsteds was still considerably short of demand, the position in woollens was much improved when all remaining subsidies were ended early in 1947 and final decontrol took place April 1. At the time ceilings came off, the position was very different from cotton. The shortage was confined to tops and to worsted yarns and fabrics and it was based on a well-marked and growing consumer preference for the worsted type of garment.¹

Pricing and Selling Policies

Like the manufacturers of cotton cloth, the larger wool firms sell fabric directly to the cutters-up. There are, however, a number of smaller companies which market part of their goods through jobbers. Sales to the hand tailoring group may be direct or through wholesalers.

Canadian manufacturers have not held an assured share of the Canadian market. Changes in the tariff reducing the degree of protection from United Kingdom importers, their principal competitors, have given rise to uncertainty among the domestic cloth mills in the past.

In discussing prices, none of the witnesses of the three special companies mentioned competition as a factor in determining their selling prices. Ayers operates on a system of estimating costs ahead and adjusting selling prices to actual costs at the end of the fiscal period. Paton Manufacturing has been using replacement price to determine the cost of raw materials in fixing the selling price. As a part of overhead, they have included provision for bond interest and dividends on preferred and common stock.

¹Evidence, Special Committee on Prices, p. 3764.

The company whose operations stand out because of increases in operating income, in the relation of total operating income to sales, and in increased net profits after taxes, is Dominion Woollens and Worsteds. Their president stated in evidence that they operated on the principle of replacement cost of raw materials prior to and following the control period. Moreover he contended that they followed the policy of setting aside an inventory reserve in a rising market "when the opportunity occurs". Yet from 1936 until the year 1947, no such reserve was set up other than the special reserves authorized under the Excess Profits Tax Act—in spite of earned profits in a rising raw wool market. The actions of this firm in the months following decontrol are interesting. In 1947 the company set aside some \$463,000 as an inventory reserve, took additional depreciation of \$60,500 not allowed under the Income Tax Act and ended up with a net profit after taxes and all other financial charges of \$268,500, or more than $2\frac{1}{2}$ times the figure for 1946. The Special Committee on Prices, in its report to the House, cast some doubts on the necessity of adopting the replacement price of raw materials as the basis for determining the selling price. They went on to contrast the pricing policy of Dominion Woollens with that of the cotton industry.

"In the case of Dominion Woollens, selling prices have been increased immediately to reflect advancing raw material prices, while in the case of cottons the manufacturers have disposed of their low-priced inventories before increasing the selling prices of their products. In this way Dominion Woollens has obtained protection against subsequent price declines out of the increased prices paid by consumers in recent months, whereas the cotton industry has not taken this benefit and the consumers have accordingly obtained relatively lower prices."¹

At the time of decontrol, Dominion Woollens' selling price for yarn dyed worsted coating provided for an estimated operating income of 16 cents per yard with raw materials costed at replacement value. One year later, on the same basis, the operating income adopted in arriving at the selling price was 46 cents. Similarly, the estimated operating loss at April 1, 1947, of three cents per yard on yarn dyed worsted fancy suiting, was altered by April, 1948, to a profit of 46 cents per yard. Tweeds, where supply was free, were cut back from an income of 12 cents per yard to a loss of five cents per yard, but overcoating was raised from 13 cents to 37 cents. The extent of these changes following right after decontrol of prices seems to us extraordinary, and we have difficulty accepting the necessity for it.

Table 125 shows the total sales, operating income and percentage of operating income to sales of the three special companies and of the fifty-one other companies which reported their main business as being the manufacture of wool yarn and cloth for the years 1936 to 1947.

¹Special Committee on Prices, Report to the House, p. 3950.

TABLE 125
COMPARISON OF SALES AND OPERATING INCOME, FIFTY-FOUR
CANADIAN WOOL MANUFACTURERS
(thousands of dollars)

	Total Sales	Operating Income	Percentage of Operating Income to Sales
Dominion Woollens and Worsted, Ltd.			
Pre-War 1936-1939 (average)	3,323	81	2.4
Pre-control 1940-1941 (average)	5,596	733	13.1
Control 1942-1946 (average)	5,513	468	8.5
Post-control 1947	7,476	1,115	14.9
Paton Manufacturing Company Ltd.			
Pre-War	1,401	148	10.6
Pre-control	2,591	557	21.5
Control	3,741	452	12.1
Post-control	2,528	148	5.9
Ayers Limited			
Pre-War	1,944	304	15.6
Pre-control	3,609	927	25.7
Control	3,509	480	13.7
Post-control	4,542	579	12.7
51 other companies			
Pre-war	17,637	1,026	5.8
Pre-control	31,847	3,580	11.2
Control	41,662	3,809	9.1
Post-control	50,157	5,710	11.4

Source: Evidence, Special Committee on Prices, p. 3832 et. seq.
The amounts (in thousands of dollars) of earnings before inventory reserves adjustment but after taxes on income of the three special companies and their percentage to capital employed for the years 1945, 1946 and 1947, are summarized in Table 126.

Both Paton Manufacturing and Ayers, in contrast with Dominion Woollens showed decreased operating income in relation to gross sales in the first year following decontrol. The 51 smaller firms had average operating income amounting to 11.4 per cent of sales in 1947, in contrast with 10.5 per cent in 1946, the final year under price control. This additional income, however, was not subjected to detailed examination by the Special Committee.

TABLE 126
NET PROFIT AS A PERCENTAGE OF CAPITAL EMPLOYED THREE WOOL
MANUFACTURERS, CANADA—1945, 1946, 1947

	1945		1946		1947	
	Amount (thousands of dollars)	Percent of Capital Employed	Amount (thousands of dollars)	Percent of Capital Employed	Amount (thousands of dollars)	Percent of Capital Employed
Dominion Woollens and Worsted Ltd.	232	10.4	101	4.5	731	25.5
Paton Mfg. Co. Ltd.	152	7.0	156	7.2	73	4.2
Ayers, Ltd. ^a	296	7.2	274	18.7	277	16.5

^a Ayers Limited reported no inventory reserve etc.

Source: Evidence, Special Committee on Prices, p. 3852 et seq.

RAYON AND NYLON

Nature of the Products, Sources of Supply and Organization of the Industry

Canadian dependence on import sources for the raw materials used in domestic production of rayon and nylon is less significant than in the case of cotton or of wool.

As a relatively new textile, rayon production and imports were both expanding rapidly prior to the war. Larger use of rayon textiles has to an extent relieved the strain on cotton requirements. In addition, the Canadian industry is comparatively more self-sufficient, though there are certain clear deficiencies.

Domestic production of filament yarns is carried out by two large companies, Courtaulds (Canada) Limited, with mills at Cornwall, Ontario, and Canadian Celanese Limited, at Drummondville, P.Q. Courtaulds, the larger yarn producer, has been making a viscose yarn from domestic wood pulp, and Canadian Celanese a cellulose acetate type from imported cotton linters. More recently, Celanese has been using a substantial and growing proportion of wood pulp, but this change has been balanced by Courtaulds' shift to linters for a new product, high-tenacity viscose yarn for tire cord. The supply of these relatively cheap raw materials has never been a problem. But expensive chemicals are required to convert the raw product into yarn and these have, on occasion, been in short supply.

Before the war, the Canadian manufacturers produced the bulk of our filament yarn requirements and imports were competitive in an expanding market. During the war, however, a substantial part of Courtaulds' production was turned to tire cord used on all heavy military vehicles. This necessitated heavy importations of acetate yarn from the United States and of viscose yarn from the United Kingdom. One product, bemberg yarn for hosiery and sheers, is entirely imported. Roughly 80 per cent of filament yarns consumed is made in Canada.

In addition to filament yarns, the rayon industry employs yarns spun from "staple fibre" which give a softer and spongier knitted or woven fabric. As with filament yarns, the cellulose is extruded through jets, or spinnerettes, but it is then cut into short lengths instead of being left in continuous thread. This "staple fibre" can then be spun in the same way as cotton and wool fibres, to make what is known as "spun yarn". The staple fibre is sometimes blended with cotton or wool fibres in the spinning process.

Until 1947, the entire supply of staple fibre was imported. In that year, Canadian Celanese Ltd. began production of acetate staple in a new plant at Sorel, P.Q. Since the beginning of 1948, their output has been sufficient to meet the entire Canadian demand for staple of this type. Courtaulds has also constructed a staple fibre plant in Cornwall which is expected to be in full production early in 1949. It will supply virtually all requirements for viscose staple in this country.

Although the development of rayon staple is the more recent and though the quality and adaptability of the product are being steadily improved, the production of continuous filament is several times the volume of spun yarn. The main reason is that there is a consumer preference for the silk-like filament fabrics.

In 1947, imports of rayon broadwoven fabrics reached a figure of approximately 20 million yards accounting for about one-fifth of our total supply. There has been no great dependence on fabric imports. Table 127 summarizes the position.

TABLE 127
APPARENT SUPPLY OF RAYON BROADWOVEN FABRICS
1935-1947
(millions of yards)

	Production	Imports from U.K.	Imports from U.S.	Total Imports	Exports	Total Supply
1935	37	2	1	3	—	40
1936	45	3	1	7	—	51
1937	46	5	1	9	1	54
1938	40	4	1	8	2	46
1939	52	5	2	9	2	59
1940	58	2	2	7	3	62
1941	83	7	3	11	4	90
1942	80	7	4	12	3	89
1943	80	5	5	10	2	88
1944	79	4	7	12	2	89
1945	81	4	8	13	3	91
1946	83	5	6	12	4	91
1947	83 ^a	7	12	20	8	100

^a) Estimated.

Source: Evidence, Special Committee on Prices, p. 3645.

During the war, some real shortages developed especially in filament fabrics required for overcoat, suit and cap linings, but these disappeared about a year after the war.

Commercial manufacture of nylon textiles was commenced only in the late thirties. Canadian Industries Limited, through its close relationship with the Du Pont Company in the United States and Imperial Chemical Industries in Great Britain, received the Canadian rights relating to nylon. It began by importing yarn for sale to hosiery knitters and then built a plant to produce the yarn in Canada. From the commencement of operations in June, 1942, until August, 1945, the entire output of this Canadian plant was sold for war purposes. Then the production was opened up to civilian purchasers and the plant has continued to furnish yarn to Canadian manufacturers of hosiery and other products.

Nylon is a plastic derived from benzene, ammonia and other chemicals. The materials are extruded through spinnerettes and stretched to form a continuous filament or cut in short lengths and spun as staple fibre as in rayon. At first C.I.L.'s production depended upon a partially manufactured import, nylon flake polymer, secured from the Du Pont Company in the United States. At the time civilian production was commenced, C.I.L. constructed facilities to produce the flake in Canada from nylon salt, also an import from its American associate. The flake polymer unit came into operation in August, 1947. Early in 1948, C.I.L. began production of nylon staple fibre. Before then, only the continuous filament yarns had been manufactured. Through an expansion of its Kingston, Ontario, plant, the Company is now aiming at a further 25 per cent capacity for filament yarns and hopes to treble its output of nylon staple.¹

A noteworthy feature of nylon is that only a small fraction of the filament yarn goes to weavers. The first commercial use for nylon yarn was ladies' knitted hosiery and this use continues to absorb some 80 per cent of C.I.L.'s output.

Primary domestic producers of broadwoven synthetic fabrics rely very extensively on these three Canadian yarn plants to supply them with rayon or nylon filament or staple fibre. In addition to their weaving operations, a number of the cloth mills also spin the staple fibre to make the yarn for their spun fabric production. The Royal Commission on Textiles in its 1938 report showed that Canadian Celanese and Courtaulds began production of synthetic yarns under the protection of patents on their respective manufacturing processes. Similarly, C.I.L. has had the benefit of the sole Canadian rights to make nylon yarn and fibre. In evidence before the Special Committee, the representative of Canadian Celanese pointed out that most of the basic patents for their product have now expired.² But the fact remains, that in practice, these three companies all hold a monopoly position both as filament yarn producers and in the manufacture of staple fibre.

Well before the war Canadian Celanese went into the production of woven knitted fabrics and they have continued and expanded this part of their production until now they are a vertically integrated concern selling substantial yardages of fully finished fabrics in a wide range of spuns and filament types. This is in addition to the yarn and staple fibre which they produce for sale to other manufacturers. At the time of the hearings of the Special Committee on Prices this company was also turning out ladies' hosiery but this part of their operations is being discontinued.

Besides Canadian Celanese, some 25 companies are engaged primarily in the manufacture of broadwoven synthetic fabrics and a number of these firms have their own spinning equipment for converting staple fibre into yarn. Quebec Province, particularly the Montreal area, is the centre of this industry. Several cloth manufacturers are also

¹From "Textiles" publication of the Primary Textiles Institute of Canada, July 1948.

²Evidence, Special Committee on Prices, p. 3694.

located in Ontario but there are no mills of significance outside these two provinces.

Because of its dominant position among the rayon weavers, Bruck Mills Limited, along with the three filament yarn firms was sent a special questionnaire.¹ The survey of the Special Committee on Prices dealt with returns from 18 other rayon fabric manufacturers. However, witnesses were not called by the Committee from Bruck or any of the smaller mills.

During the thirties, the larger cotton companies, Dominion Textiles, Ltd., Montreal Cottons Ltd., and Canadian Cottons Ltd. built up a substantial rayon fabric production. Recently, however, these firms have not attempted to keep pace with the growth in the rayon industry. Dominion Textiles has moved out of rayon production altogether but has a half interest in a rayon cloth company formed in 1945, Dominion Burlington Mills Limited.

Canadian Celanese, Courtaulds and C.I.L. in that order, have by far the largest capital investment in the silk and synthetic industry. Bruck Mills Ltd. is capitalized at something over half the investment in the C.I.L. nylon textile division. In 1942, the first three accounted for over 60 per cent of the total capital of the entire primary industry, with a heavy share tied up as fixed capital in plant and machinery.

The capital requirements of the silk and synthetic group are the heaviest of the three main branches of the primary industry. But this position is attributable to yarn rather than fabric, where capital requirements are much less.

There appears to be considerable variation in the wages of the working force in the synthetic branch of the textile industry. Two of the larger firms were mentioned in the evidence by the labour witnesses as paying top wages, C.I.L. with an average of \$1.05 per hour and Courtaulds fractionally above that figure. On the other hand, one cloth firm was said by both labour spokesmen to be paying a goodly number of its female help close to the Quebec minimum of 24 cents per hour.¹ One factor entering into this comparison is the higher proportion of female workers in the yarn mills. Nevertheless, the contrast is striking, and is underlined by the fact that, according to Dominion Bureau of Statistics returns, female help in the whole silk primary group has been receiving a lower hourly average wage than in either the wool cloth or even the cotton yarn and cloth industries.

Operations during the War and the Position on Decontrol

At the beginning of the control period, because of price increases at the primary level which, at the time basic period prices were established had not carried through to retail, mill prices had to be "rolled back" to a point appropriate to the retail level. Hence, import subsidies were needed for cotton linters, filament yarns and viscose staple fibre and, somewhat later, fabrics. However, the total subsidy

¹Evidence, Special Committee on Prices, pp. 3847, 3883.

bill for rayon was only a small fraction of the sums paid out to stabilize cottons and it was possible to eliminate rayon subsidies in February, 1947, several months ahead of final removal of cotton subsidies. Import procurement, in some instances, involved government bulk purchasing and supervised distribution of supplies, but again, the job was much smaller than in the case of cotton.

Supplies of viscose yarns for civilian purposes were cut back sharply in 1944, by the diversion of a substantial part of Courtaulds' production to rayon tire cord. In 1944, more than five million pounds of yarn went into tires for military vehicles, or close to 20 per cent of the total available supply of filament yarns. In 1945, the figure was in excess of 6.5 million pounds, while a further 4.8 million pounds were used for civilian truck tires. The domestic supply for other uses was maintained through subsidized imports of acetate and viscose yarns from the United States and Great Britain and increased domestic production of acetate yarns. Silk and nylon also went into war uses. Quite early in the war, silk largely disappeared from the civilian market, but it was already being rapidly displaced by rayon and its military value in parachutes and other items merely speeded a well-marked trend. While some nylon hosiery had been sold at the beginning of the war, as we have said, nylon soon became strictly a war product. The industry was able to reach a substantial rate of yarn production when it turned back to peacetime production. In the field of knitted garments, it did much when the war was over to alleviate shortages in knit goods.

Rayon products in the earlier war years were in short supply as were textiles generally. Because cotton garments were short, additional demand turned to rayon. Restrictions on garment production and simplification of garment constructions were applied to rayon products as well as to cottons and wools, and in the late control period, the more direct technique of actually specifying the volume and types of garment production was introduced. In late 1946, rayon fabric manufacturers began to concentrate an increasing amount of production in higher priced lines. About this time, the termination of United States yarn allocations created a new supply uncertainty. When, in addition, industrial disputes stopped the production of one fabric mill and created a shortage of chemicals needed for filament yarn production, the combined result was an unexpected lack of fabrics during 1946, and some shortage of lingerie and linings through 1947. These shortages, all of a transient nature, had practically disappeared at the time of the investigation.

Pricing and Selling Policies and Problems

The combined figures for the synthetic primary industry, setting out operating income as a percentage of sales, give an amount of 20.2 per cent for 1947, when decontrolled prices operated for part of the year, as against 17.6 per cent for 1946, a year when prices were wholly controlled, and 19.6 per cent in 1941, the year immediately preceding imposition of controls. Among the 18 companies filing the ordinary

questionnaire, the returns show that the percentage obtained by the 18 companies remained constant between 1946 and 1947 at 12.7 per cent as did the position of Bruck Mills Limited, at 12.1 per cent. A sharp increase was recorded for Courtaulds from 6.9 per cent in 1946, to 21.3 per cent in 1947, Canadian Celanese returns rose from 27.5 per cent to 32.7 per cent, while Canadian Industries Limited registered a decrease from 34.5 to 25.2 per cent in the same year. Insufficient evidence was presented on which to draw any conclusions regarding the smaller fabric mills, especially as returns were not summarized covering any portion of 1948.

Bruck Mills Limited for the first quarter of 1948, had an operating income of 19.8 per cent, and this covered an increased dollar volume of sales. In 1946 and 1947, this company had shown an operating income varying widely, but averaging over the period 12.1 per cent.

More detailed evidence was obtained on the operations of yarn producers. Of these, Canadian Industries Limited's position was unique in that the company has made no increases in price and, on the contrary, has reduced prices. A ceiling for Canadian Industries Limited was authorized when it entered the civilian market in late 1945, equal to the prices of imported nylon yarns in the basic period. In marketing a domestic product the company was able to fix prices ranging from 20 to 30 per cent below the ceiling. In December, 1946, this firm cut its prices by about eight per cent and in June, 1947, by a further 9½ per cent.

The Special Committee on Prices commended Canadian Industries Limited for these moves, but questioned whether the company had reduced prices far enough and fast enough in the public interest. Aided by assured war contracts, Canadian Industries Limited had been able to achieve a capacity of almost 1½ million pounds of yarn annually before turning to the civilian market. Upon surveying the peacetime possibilities, the company had undertaken expansion and, with the exception of temporary difficulties with nylon for weaving (a small portion of their total business), had operated up to full capacity ever since.

Under government contract, Canadian Industries Limited, agreed to operate on a guaranteed return of five per cent profit before taxes, leaving them with a net return ranging between 2½ and 3½ per cent. The company's vice-president pointed out to the Special Committee on Prices that their selling prices would not prove economically possible over a more extended period.¹ It is noteworthy that profits after taxes in 1946, amounted to 17.2 per cent of net capital employed. These profits were in excess of the total wage bill and the operating income was more than double total wages paid. Operating income also rose slightly over 1947 in the first quarter of 1948.

Because of the difference in operations between the two rayon yarn producers, no close comparison of their operations is possible. However, the evidence reveals some marked contrasts in the positions.

¹Evidence, Special Committee on Prices, p. 3650.

With a net return on capital in 1947 of 7.6 per cent, and a continuing high operating income in the first quarter of 1948, Courtaulds raised yarn prices by five cents per pound on April 1, 1948.

Canadian Celanese Limited, also raised prices on its products in April, 1948, when the net profit had amounted in 1947 to a return on capital of 15.5 per cent. For the first quarter of 1948, the rate of net profit was almost exactly 24 per cent. Discussing these increases the representative of Canadian Celanese stated that inventories of fabric were reduced by one million yards in the first quarter, so that the high profit was to an extent fortuitous. Also, new products were being marketed from the Sorel plant, and part of this production was said to be unsatisfactory. The best goods had been sold first and the less satisfactory items would in all probability, have to be marked at a sacrifice later in the year. The company's representative also stated that he did not want to drop his company's prices "below prices which are established,—too far below anyway".¹ He went on to say that their sales staff had been asked to check with the firms's 1,500 customers to make sure their prices were not acting as an umbrella to raise the standard of prices for rayons in Canada. But the price increases were adopted nonetheless. The claim was that goods were already selling below the market and it was unlikely that such reductions would have any effect on the price to the ultimate consumer.

SUMMARY AND CONCLUSIONS

The primary textile industry is divided into three main branches classified according to the raw material used, that is cotton, wool and synthetic fibres. The industry is dominated in each branch of production by a small group of companies. Their leadership is most marked in the manufacture of yarns and is based to a considerable degree on the heavy capital investment in plant and machinery which is needed for efficient production. The heaviest investment is required for synthetic yarn and staple fibre production. The cotton industry, too, calls for large amounts of capital, especially if a diversified production of yarns and fabrics is to be carried on under one management. Wool combing operations also require heavy investment and, as with cotton, it takes a large organization to engage in a full range of woollen and worsted yarn and cloth output. In general, the dominant firms with extended operations have been able to achieve a better profit position than the smaller operators who very often deal only in one or a few segments of primary textile manufacturing.

The industry operates under high tariff protection. The evidence has shown that, in the period under review, full advantage of protection to raise prices has stopped short of the point where buyer resistance might make itself felt. This has been true of all groups, but especially so of cotton. In spite of the fact that domestic production has been unable to meet all present demands for domestic types, the Canadian cotton industry has marketed both fabrics and yarns at prices well below the landed cost of similar goods of United States or United Kingdom origin.

¹Evidence, Special Committee on Prices, p. 3713.

Cotton prices have risen most sharply among the group of textiles under review and world prices appear to have been the most important cause. The price of raw cotton is more than three times the pre-war price and prices of yarns and fabrics have risen correspondingly. The bulk of this increase did not affect the consumer directly because of import subsidies on yarns and fabrics which were continued at a high level until the date of final decontrol, September 15, 1947. At that time under voluntary agreements with the mills, subsidies were not reclaimed and the mills undertook instead to continue subsidized prices for several months.

A special factor entering into the cotton situation has been the failure of cotton mills to maintain production at close to wartime peaks. Output has even dropped below pre-war levels in some mills. This decline was attributed, by most witnesses appearing for the companies, to labour difficulties. The cotton mills did not expand production facilities through the war but relied on lengthened operating shifts. From the evidence it has appeared that where wages were lowest and working conditions least satisfactory, the greatest drop in output has occurred. It seems to us essential that the industry face the necessity of an early improvement in labour relations. There was a steady decline in production from 1942 throughout the remainder of the war, a decline which can be related to the sharp drop in war orders and the transfer of labour to more vital activities.

In these circumstances the reduced total production in late war years is perhaps not surprising. But we find it hard to understand why an industry which had a negligible post-war reconversion problem and which faced a civilian demand so exceptionally strong should have been unable to reverse this trend when the war was over. It is inconceivable to us that the difficulties should have been much greater for this industry than for many others which arranged the transfer from war production to capacity output of civilian goods smoothly and efficiently. Over one hundred years ago a distinguished writer expressed an opinion which we think is peculiarly appropriate to the circumstances we have been discussing. "Manufacturing industry depends solely on itself, competition is its life. Protect it and it goes to sleep; it dies from monopoly as well as from the tariff."¹

There has been a large number of small producers in the wool yarn and cloth industry for a number of years. The industry expanded rapidly throughout the war, due largely to heavy military and civilian requirements. Except in the types of cloth which are in greatest demand, fine worsteds, total supply is fully adequate today. Contributing to the shortage of worsteds is a deficiency in wool combing capacity in Canada. In addition, the raw wool required for combing as well as the combed wool tops must be bought in a world market where prices have risen substantially.

In spite of the greater number of wool firms compared with cotton, and the relatively easier supply position, the three largest woollen and worsted producers were able to fix selling prices on the basis of replace-

¹Honoré de Balzac "The Country Doctor".

ment costs of inventories, a practice which the cotton group has not adopted. The three wool firms all sold their goods on this calculation of costs and none gave any indication that competition was forcing any modification in this method of setting prices. One possible explanation is that although, as we have said, the wool industry is made up of a greater number of firms, among the large units in particular there is little similarity in actual fabrics produced.

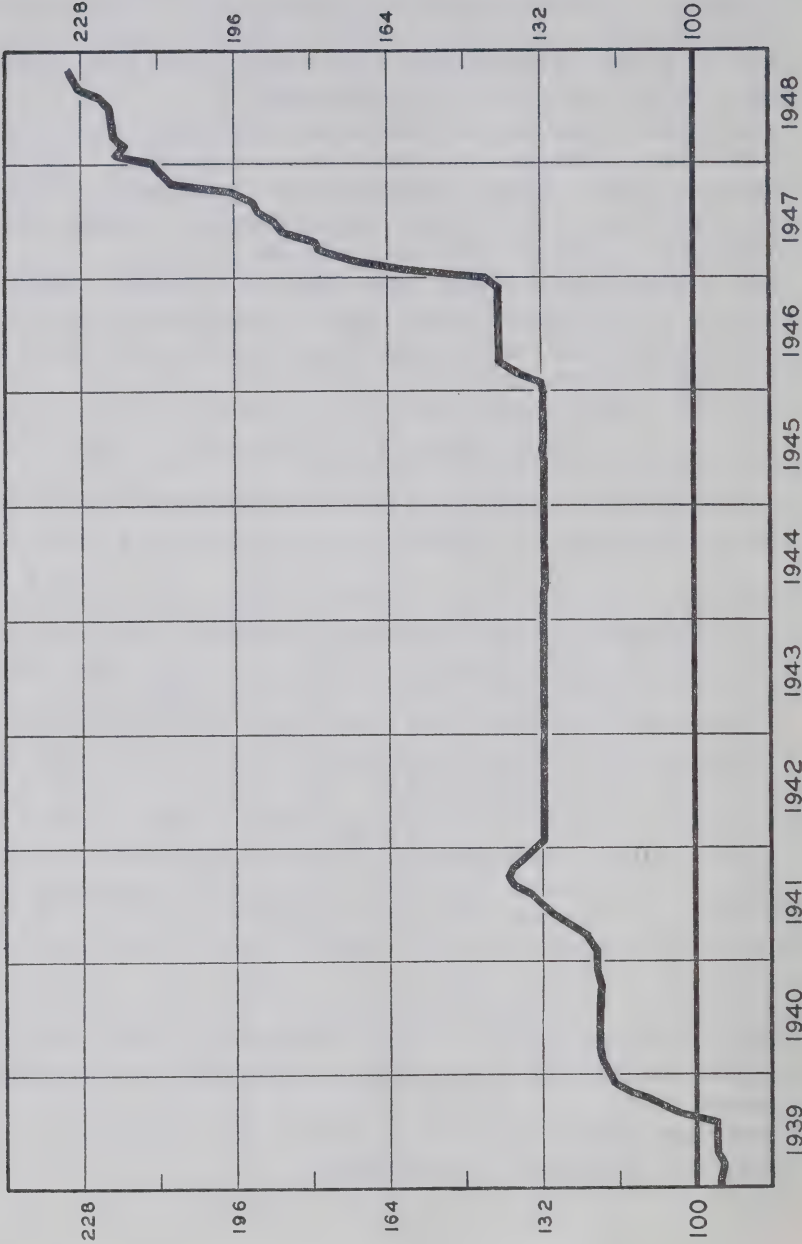
No detailed examination of the position of most synthetic fabric producers was conducted, but the yarn manufacturers' operations were studied in detail. The one manufacturer of cellulose acetate rayon yarn also produces and sells a wide variety of fabrics. On its total operations in the post-war period this firm has shown heavy profits. The company's representative stated with reference to these profits his opinion that in a rising market it was better to hold ample profits as a hedge against depression, than to pass along price benefits which might never reach the final consumer.

Nylon yarn has gone into civilian channels only since the war. The producer began selling this yarn well below the ceiling price which was fixed some years earlier for imported yarns. Since turning to civilian sales, the nylon company has put two further price reductions into effect. This has, however, left them with very large profits which they contend are necessary for pioneering in a few fields. The company became well established under a wartime contract with a guaranteed rate of return. It would appear that the financing of expansion into new processes and operations out of the consumer's dollar is an important determinant of the price level not only for nylon but for other primary textiles operations.

The three producers of synthetic yarns all occupy monopoly positions in their respective fields though there may be, it is fair to say, some competition in the end-products. In addition to tariff protection all three of them established their businesses with complete patent protection. Some of these patents, it is true, have expired, but the heavy capital requirements of the industry have, notwithstanding this, enabled the companies to maintain their monopoly positions. In the circumstances, the returns on capital, certainly for Canadian Industries Limited and Canadian Celanese were by any standard very high indeed. And it is noteworthy that these companies were not among those that suffered unduly during depression years; their monopoly position safeguarded them from the vicissitudes of hard times. There is, we think, therefore not quite the same need here for high profits to cushion the effect of deflationary conditions as there may be for companies which face the rigours and disciplines of competition.

CHART XIV
TEXTILE WHOLESALE PRICE INDEX

(1935-39 = 100)



Source: Dominion Bureau of Statistics, Ottawa.

THE CHEMICAL FERTILIZER INDUSTRY

IN comparison with the pre-war period, domestic prices of mixed fertilizers and fertilizer materials have both advanced much less than the average of all prices. An index of mixed fertilizers on a base 1935-1939 = 100 advanced to 123.8 in 1942, subsequently fell back to 114.0, at which level it remained until August, 1946 when it advanced to 117.2. Since that time there have been two further increases, to 122.1 in January 1947 and to 133.2 in January, 1948. The drop in prices which occurred in 1943 was due partly to the elimination of some cross-hauling of freight with the introduction of a zoning system for the sale of fertilizer under price control, and partly to the elimination of certain selling costs during the war period. This will be discussed in a later paragraph. The reduction was made voluntarily by the companies in consultation with the Wartime Prices and Trade Board. The movement of the wholesale price index of fertilizer materials has been very similar to that of mixed fertilizer prices. The index on a base 1935-1939 = 100 advanced to 112.9 in 1942, dropped back to 109.2 in 1943 and had advanced again to 112.2 at the time price control was dropped on fertilizers in June 1947. Since then there have been further price increases and in July 1948 the index was 129.7. This latter index, however, does not contain prices for ammonium nitrate or ammonium phosphate. In eastern Canada the price of ammonium nitrate has increased by 32 per cent since June 1, 1947, whereas the wholesale index of all materials increased only 15.6 per cent during this period. On the other hand, since 1939, the price of ammonium phosphate to the farmer has increased by only 22 per cent for one grade, and about 17 per cent for another grade.

Before attempting to evaluate the various factors that have contributed to these price rises, it will be useful to outline the nature of the fertilizer industry, its special characteristics and its pricing and selling policies.

TECHNICAL NATURE OF THE PRODUCT

Chemical fertilizers are used extensively by farmers and market gardeners to supplement or replace materials in the soil that are essential to plant growth. The three most important plant foods supplied in this way are—nitrogen, phosphoric acid and potash. The industry producing these fertilizers falls into two main divisions, firms producing fertilizer materials and firms producing mixed fertilizers. Fertilizer materials are materials which supply one or more plant foods while mixed fertilizers are mixtures of these materials which have been designed to combine these plant foods in proportions most suitable for the different soils and

crops of the various provinces. Before any mixture can be sold it must be registered with the Department of Agriculture in Ottawa and it must meet certain legal requirements. Thus, the Fertilizer Act provides that all fertilizers sold in Canada must contain at least 20 per cent in plant food and must contain a minimum either of six per cent in nitrogen or five per cent in phosphoric acid or four per cent in potash. Until 1947 the over-all plant food requirement was only 14 per cent. Most of the mixtures registered and sold are those recommended by provincial fertilizer advisory boards and councils. During recent years there has been a pronounced trend towards the use of a larger proportion of mixed fertilizers, and in the year ended June 30, 1947, 85.5 per cent of all fertilizers sold were of this type. This compares with only 69.7 per cent in 1939 and 48.3 per cent in 1929. Some of this decline in the purchase of fertilizer materials by users is due to a decrease in the mixing of materials at the farm. An exception to the trend is found in the Prairie provinces where 91.5 per cent of all fertilizers sold consists of ammonium phosphate, a fertilizer material which contains both nitrogen and phosphoric acid.

The relative importance of fertilizer materials and mixed fertilizers in the various parts of Canada is shown by the following table.

TABLE 128

SALES IN CANADA TO FINAL USERS, EXPORTS AND IMPORTS OF MIXED FERTILIZERS AND FERTILIZER MATERIALS,
YEAR ENDED JUNE 30, 1947

(thousands of short tons)

	Mixed Fertilizers			Fertilizer Materials		
	Two leading brands		Total	Super-phosphate	Ammonium phosphate	Total
	2-12-6	4-8-10				
Maritimes	24.4	95.0	158.8	8.3	—	14.5
Quebec	57.2	48.4	135.3	7.7	—	9.9
Ontario	96.5	21.7	252.1	9.9	2.5	20.4
Prairie Provinces	.03	.02	.7	.02	38.0	40.8
British Columbia	—	—	17.9	1.4	4.3	10.3
Total Sales in Canada	178.1	165.1	564.8	27.3	44.8	95.9
Exports	.8	3.1	43.7	—	—	—
Imports	—	—	—	124.0	—	639.9

Source: Dominion Bureau of Statistics, Ottawa.

Mixed fertilizers are usually identified by a number code such as 2-12-6, or 4-8-10 in which the various digits indicate the percentage of nitrogen, phosphoric acid and potash contained in the mixture. Thus 2-12-6 contains two per cent by weight of nitrogen, 12 per cent by weight of phosphoric acid and six per cent by weight of potash. In most cases,

the fertilizer material used to supply one of these three plant foods contains a larger percentage of the food than required by the formula, and therefore, certain amounts of material called filler are added to bring the mixture to the correct percentage. This filler usually consists of sand or dolomitic limestone; of these two the latter is more desirable since it contains both magnesium and calcium which are valuable for certain types of acid soils.

In addition to the three basic plant foods, nitrogen, phosphoric acid and potash, a number of lesser plant foods have been added to mixed fertilizers in recent years. This is especially true where there are proven soil deficiencies of such minerals as sulphur, manganese, boron, copper and magnesium.

The basic plant foods are supplied by a variety of materials. Nitrogen comes chiefly from ammonium sulphate, ammonium nitrate, cyanamid and ammonium phosphate, with a small amount being obtained from packing house by-products, and from nitrogen solutions and anhydrous ammonia. Phosphoric acid is supplied by superphosphate and ammonium phosphate, and potash is supplied chiefly by muriate of potash and from small amounts of sulphate of potash.

SOURCES OF SUPPLY AND STRUCTURE OF THE INDUSTRY

Canada is dependent for the supply of these materials either on imports or on a relatively small number of domestic producers. For both phosphoric acid and potash, Canada is almost entirely dependent on imports. All the supply of potash is imported, while for phosphoric acid, phosphate rock is imported from United States and North Africa and treated to produce superphosphate and ammonium phosphate. Superphosphate is produced by Canadian Industries Limited in plants at Belœil, Quebec, Hamilton, Ontario and New Westminster, B.C. C.I.L.'s total production in 1947 was about 240,000 tons and in addition to this about 142,000 tons were imported into eastern Canada from the United States. Ammonium phosphate is produced by the Consolidated Mining and Smelting Company at Trail, B.C. Total production in 1947 was about 210,000 tons and of this 66,000 tons were used in Canada and the remainder was exported.

Eastern Canada obtains her supply of nitrogen materials from ammonium nitrate and cyanamid produced by North American Cyanamid Ltd. and from ammonium sulphate which is produced by five coke plants. In addition about 5,000 tons of nitrogen solutions and anhydrous ammonia were imported from United States during 1947 and a small quantity of ammonium phosphate is shipped down from western Canada. North American Cyanamid Ltd. sold over 93,000 tons of ammonium nitrate during 1947 and about 27,000 tons of this were used in Canada. The company's cyanamid sales amounted to 163,000 tons and somewhat less than 12,000 tons of this were used in Canada. The remainder of both its ammonium nitrate and cyanamid production was exported to the United States. In western Canada the Consolidated Mining and Smelt-

ing Company is the only important producer of nitrogen materials and it produces three, ammonium sulphate, ammonium nitrate and ammonium phosphate. The company's production of ammonium sulphate in 1947 was 164,000 tons of which all but about 7,000 tons was exported; its output of ammonium nitrate which is produced in two plants, one at Calgary and one at Warfield B.C., amounted to 115,000 tons at the Calgary plant. The output at Warfield is not known. Almost all of the Company's output was exported.

The following table sets out in some detail the production, imports and exports of fertilizer materials in Canada during 1947:

TABLE 129

CANADIAN PRODUCTION, IMPORTS AND EXPORTS OF FERTILIZER
MATERIAL DURING 1947^a

(thousands of short tons)

	Production	Imports	Exports
NITROGEN MATERIALS			
(a) Ammonium sulphate			
Consolidated Mining and Smelting Co.	164	—	159
Five coke plants, Eastern Canada	33	—	—
Total Ammonium Sulphate	197	—	159
(b) Ammonium nitrate			
Consolidated Mining and Smelting Co.	157	—	205
North American Cyanamid Ltd.	93	—	66
Total Ammonium Nitrate	250	—	271
(c) Cyanamid			
North American Cyanamid Ltd.	163	—	152
(d) Anhydrous ammonia and nitrogen solutions	—	5	—
PHOSPHATE MATERIALS			
(a) Ammonium phosphate			
Consolidated Mining and Smelting Co.	210	—	163
(b) Superphosphate			
Canadian Industries Ltd.	240	—	—
	—	142	—
Total Superphosphate	240	142	—
(c) Phosphate rock	—	485	—
POTASH MATERIALS	—	108	—

^a Data for North American Cyanamid Ltd. are sales rather than production. In some instances data are approximate only.

Source: Evidence, Royal Commission on Prices.

Of the various sources of nitrogen, ammonium sulphate has certain advantages over ammonium nitrate and cyanamid in that it mixes more readily with other materials and gives a better mechanical condition to the mixed fertilizer. Cyanamid can only be used at the rate of 50 pounds to the ton because of its toxic action on plants. Use of ammonium nitrate is also limited because it is hygroscopic, that is, it absorbs moisture from the air and causes a soggy condition in the fertilizer if used to excess. Use of ammonium sulphate in eastern Canada is limited by the shortage of supply and this further restricts the degree of competition in this field.

Plants producing fertilizer materials in Canada are on a large scale and call for heavy capital investment. The original cost of the investment in plant and equipment by the Consolidated Mining and Smelting Company amounts to \$26.9 million; the ammonium nitrate plant at Port Robinson was purchased by North American Cyanamid for \$4.75 million and the investment of Canadian Industries Limited (including its mixed fertilizer operations) in its various plants amounts to about \$3 million. In the production of superphosphate and ammonium phosphate the availability of a basic raw material, sulphuric acid, in the form of a by-product from other operations was a major consideration in leading to the commencement of production and is a continuing factor in making production possible at a relatively low cost. In the C.I.L. plant at Beloeil and the Consolidated Mining and Smelting plant in British Columbia, this sulphuric acid is made available to their fertilizer divisions at very small or no cost. Both the size of the plant and the importance of this low cost by-product are factors which make it difficult for new firms to enter the field. Three new plants were constructed during the war period to produce ammonia and ammonium nitrate for war purposes, at Calgary, Alberta, at Warfield, B.C., and at Port Robinson, Ontario. At the end of the war these were sold to firms that are already producing fertilizer materials, the first two being purchased by the Consolidated Mining and Smelting Company and the latter as already mentioned by the North American Cyanamid Limited.

The other stage of the fertilizer industry consists of the mixing of these primary materials. In Canada, at present, there are 28 plants manufacturing mixed fertilizers, eight in the Maritimes, four in Quebec, 12 in Ontario, and four in British Columbia. In addition, there are seven local mixing stations operated by the United Farmers Co-operative Company Ltd. at various points in the province of Ontario. The 28 plants are owned by just 18 different companies and there is a relatively small number of competing producers in each area. Transportation costs place a definite limit on competition between different areas. Competition is further restricted by the fact that the industry is dominated by a few large firms. Canadian Industries Limited with six plants, sold about 35 per cent of all mixed fertilizers sold in Canada during the year ended June 30, 1947, and the three largest firms, sold about 75 per cent of this same total.

Both small and large plants are engaged in mixing fertilizer, and no clear evidence was presented to indicate which was the most efficient. The representative of the United Farmers Co-operative Company expressed a belief that small scale mixing plants were not necessarily at a disadvantage. The United Farmers Co-operative Co. have a number of local affiliated co-operatives which run small mixing stations that are supplied with materials through the Toronto plant. During the 1930's, home mixing on the farm was fairly extensive.

The mixing operation varies in complexity depending on whether the fertilizer is to be used immediately or to be stored for some time. In the former instance the operation is very simple and can be carried on with a minimum of capital equipment. This is the basis on which the United Farmers Co-operative Company Limited operates its business. On the other hand, where the fertilizer is mixed several months in advance of sale, as is the case with the larger companies, a curing process is necessary which requires additional capital equipment. The need for storage facilities is also quite large in the industry because sales are very seasonal, whereas production is spread more evenly through the year. In general, the relatively simple nature of the mixing operation and the ease with which new plants can come into the industry, should check any important departure from a competitive rate of return.

PRICING AND SELLING POLICIES

In selling its product the mixed fertilizer industry uses a form of basing point pricing. Under the system as used in this industry one firm will absorb part of the freight on shipments of fertilizer into areas which are closer to a competitors plant. This additional freight charge, known as freight equalization, becomes part of the firm's cost of doing business and, except to the extent that competitive conditions in the industry are altered by this practice (see discussion below), this cost must be reflected in a higher market price for its product. The extra charge will presumably be borne equally by both near and distant points and will not alter the geographical pattern of prices.

The method used to achieve this result is for a firm to quote prices for its various products f.o.b. either its own plant or the plant of the competitor against whom it has decided to equalize freight charges. Thus Canadian Industries Limited, when selling in eastern Ontario, quotes prices f.o.b. Montreal, where its own plant is located, or Port Hope, where a plant of Agricultural Chemicals Limited is located. Similarly Agricultural Chemicals will quote a price f.o.b. its own plant at Port Hope or f.o.b. Montreal from their Chambly plant. This means that the customer in buying from each firm has the alternative of paying the quoted price plus the freight from either Montreal or Port Hope, whichever is the lowest. In the case of Canadian Industries Limited when a customer or dealer buys at the quoted price f.o.b. Port Hope, C.I.L. will invoice him at the f.o.b. plant price plus the entire freight from Montreal, less the amount of rebate

necessary to equalize the freight charge with the cost of shipment from Port Hope. Thus the fertilizer will be shipped prepaid Montreal but the customer will only be charged with the freight from Port Hope. Agricultural Chemicals Ltd. reporting a slight variation of this practice, indicated that it normally shipped its fertilizer freight collect but prepaid freight on the shipment to the amount of the freight equalization.

Both C.I.L. and Agricultural Chemicals indicated that certain limits were placed on the amount of freight equalization which they paid. Representatives of C.I.L. said that it was their firm's policy, at present, to limit the amount of freight equalization to \$1.50 per ton although during 1947 to meet an emergency shortage in one area of Quebec, it paid up to \$2.50 per ton.

The main objective seemed to be that of obtaining sufficient sales to operate its present plant at capacity. At the beginning of this year estimates were made of the company's potential sales by counties, first by calculating probable total sales for each county and then estimating the share which C.I.L. was likely to get. Using these estimates the sales manager then determines the area over which the company must sell to obtain its capacity sales objective and an estimate is made of the total freight equalization which will have to be paid. From these estimates a limit is set to the amount of freight equalization per ton which salesmen may grant when soliciting orders. Though salesmen are free to sell in any area within this limit, apparently some effort is made to reach the company's sales objective with a minimum payment of freight equalization. This is done by pressing sales more vigorously close to its own plant. Other than the above no indication was given as of the basis on which the company would decide that payment of freight equalization beyond a certain amount per ton was not worthwhile.

According to price theory a firm following this practice would continue to accept sales up to the point where the cost of the last sale including the freight equalization was just equal to the selling price. The firm's aim to reach capacity production would suggest that marginal costs are near or below average costs up to the point of capacity operation. While the concept of capacity is somewhat vague, a reasonable interpretation would be the point at or near which the firm can produce most efficiently, or in technical language the point of minimum average total costs. If this is true the maximum amount of freight equalization should approximate the average rate of profit. Data submitted by C.I.L. support this suggestion. The estimated average rate of profit per ton for an important type of mixed fertilizer, presumably based on capacity operation, was \$1.66 per ton which is not far from the \$1.50 allowed for freight equalization. Two other companies, Agricultural Chemicals and United Farmers of Ontario, were less explicit as to the distance they would go in paying freight equalization. They indicated that they would pay up to 90 cents or \$1.00 and that it depended on how badly they needed the business. In their fiscal year ended June, 1948, Agricultural

Chemicals paid as high as \$1.00 per ton from their Port Hope plant and \$1.20 per ton from their plant at Chambly, Quebec.

A basing point price system leads to some departure from an economic allocation of resources. The loss to the economy consists in the unnecessary cross haulage of fertilizer with a resultant waste of transport facilities. During the war a system of zoning was adopted whereby each plant supplied the districts immediately surrounding it. These zones were designed to secure capacity operation of each plant throughout the year. This resulted in some reduction in cross haulage of fertilizer and was a factor in the voluntary reduction in prices that occurred at the time the zoning system was set up.

Some indication of the importance of freight equalization is given by data presented on the amount of freight equalization paid per ton. In 1947 Canadian Industries Limited paid a total of \$40,710 in freight equalization, though of this total, \$4,000 represented freight on shipments of fertilizer from the firm's Hamilton plant to customers who would ordinarily have been supplied from their Chatham plant. In Ontario and Quebec where over 95 per cent of this payment was made, 82,807 tons out of total sales on an f.o.b. basis of 150,117 tons were sold with the freight equalized. The average amount of freight equalization per ton of mixed fertilizer sold on an f.o.b. plant basis was 45 cents in Quebec and eastern Ontario, and nine cents for central and western Ontario. For Canada as a whole it amounted to an average of 23 cents per ton. However, during the first six months of 1947, the period when fertilizer sales were highest, the wartime system of zoning was still in effect so that the above data are not necessarily a good indication of the amount which will be paid now that the zoning system has been abandoned. Nevertheless, Agricultural Chemicals Limited which operates plants at Port Hope, Ontario, and Chambly, Quebec, shows only a slight change in the rate of freight equalization before and after the termination of zoning. It showed an average amount of freight equalization per ton of mixed fertilizer shipped on an f.o.b. basis of 33 cents and 36 cents for its fiscal years ended June, 1947 and June, 1948 respectively at Port Hope, and 39 cents and 40 cents respectively for Chambly. Some freight was absorbed on slightly over half of the fertilizer it sold on an f.o.b. plant basis in the year ended June, 1948. The above rates of freight equalization amount to only about one per cent or less, of the selling price to the farmer of the standard grades of mixed fertilizer.

The amount of freight equalization paid cannot be taken as a measure of the uneconomic use of transportation facilities because some of the shipments on which freight is absorbed might occur even if an f.o.b. plant price was in use. But the waste involved would not be larger than this amount and would probably be smaller.

Basing point price systems are often adopted where firms wish to foster a system of price leadership in an industry. Prices of different firms become more directly comparable under this setup because there is no freight differential in the prices of the various firms that equalize

freight in a given area. Representatives of Canadian Industries Limited specifically denied that there was a price leader in the field and said sometimes one firm would issue the first price list for a new season and sometimes another firm would do so. They said that while a rise in price would sometimes be followed by other firms, at other times it would not, and the firm making the original increase in price would be forced to reduce its price to its former level. On the other hand representatives of two of the smaller firms, Agricultural Chemicals and the United Farmers Co-operative Company, Ltd., both said that it was their practice to wait until one or two of the larger firms, namely C.I.L. or Canada Packers, issued their price lists before they prepared their own. Agricultural Chemicals Ltd. said that it invariably followed the price lists issued by these other firms even when they found the prices unfavourable to them. The representative of the United Farmers Co-operative Company, Ltd. said that the usual practice in the industry was for one of the larger firms to issue a price list which the smaller firms followed.

Current price lists filed by C.I.L., Agricultural Chemicals and the United Farmers Co-operative Company Ltd., show that the prices of each of these firms for plants in the same areas are almost identical. Individuals purchasing fertilizers through the United Farmers Co-operative Company Ltd. would, however, receive a dividend at the end of the year out of the profits of the organization. It was estimated that the dividend rate in 1947 would amount to about \$1.30 per ton on fertilizer.

There was some contention that a system of freight equalization would tend to make the industry more competitive by increasing the number of firms selling in any given area. Under such a system no firm is in a position to exploit a monopoly of sales in the area immediately surrounding its own plant. But even though the number of firms selling in each area is increased there are still only a relatively small number of firms selling in each area. In judging the general merit of a basing-point system it is important to remember that they have sometimes been used by a large firm to undercut a smaller rival in one area while maintaining prices elsewhere. This, undoubtedly has often contributed to the squeezing out of smaller rivals though none of the evidence presented shows that this has occurred in the fertilizer industry.

Since freight equalization can only be an important factor in an industry where freight cost is substantial, any change which tends to reduce the relative importance of freight costs will diminish its influence. Some evidence was presented that attempts were being made to use higher strength fertilizers which would give a larger amount of plant food per ton, thus allowing farmers to use a smaller tonnage of fertilizer. This would also make freight costs a relatively smaller proportion of the total cost. There are technical difficulties in obtaining nitrogen and phosphate materials that contain a larger proportion of these foods and yet will still make a mix that can be handled without trouble. However, the following data on the proportion of plant food contained in mixed

fertilizers sold in Canada show only a small increase in the strength of fertilizers over the past 10 years.

TABLE 130

PERCENTAGE OF NITROGEN, PHOSPHORIC ACID, AND POTASH IN MIXED FERTILIZERS SOLD IN CANADA FOR YEARS ENDING JUNE 30

	Nitrogen per cent	Phosphoric Acid per cent	Potash per cent	Plant food per cent
1936	3.1	10.2	7.5	20.8
1937	3.0	10.0	7.8	20.8
1946	3.0	10.5	8.0	21.5
1947	3.0	10.5	8.0	21.5

Source: Dominion Bureau of Statistics, Ottawa.

One other factor affecting freight rates is the amount of filler that is required to bring fertilizers to the desired strength. Though data are not available to show the total amount of various types of filler used, Canadian Industries Limited reported that it used about equal quantities of sand and limestone as filler. The firm's representatives stated that sand was used exclusively at its Quebec plants. With respect both to the amount of filler used, and the strength of fertilizers manufactured, the question can be raised as to whether the industry might not find that desirable changes conflict with their policy of using freight equalization as a basis for selling their product.

In selling its product the mixed fertilizer industry makes use of a dealer organization. The dealer takes title to the fertilizer and sells it to the farmer at a price established by the manufacturer. The difference between the price to the dealer and the price to the farmer varies from province to province. In Ontario the dealer receives a discount of eight per cent on the farm selling price, in Quebec five per cent, in the Maritime provinces \$2.50 per ton and in British Columbia \$3.00 a ton on materials and \$4.00 a ton on mixed fertilizers. In addition a substantial quantity of fertilizer in Quebec is sold to co-operatives who receive an additional discount of five per cent. Representatives of Canadian Industries Limited stated that its dealers were not required to sell at the price to the farmer which it established, but pointed out that the farmer could buy direct from the plant at this price. However, only about 3.6 per cent of their sales were direct to farmers. Dealers' selling prices to the farmer vary somewhat, because dealers often quoted a price delivered to the farmer. Thus evidence presented by Mr. Ritchie, of the Ritchie Feed and Seed Company of Ottawa, showed that his gross margin on different brands of mixed fertilizer sales varied from 9.8 to 10.71 per cent in 1947 and from 11.86 to 12.44 per cent in 1948. This margin represented the difference between his cost including freight and the selling price delivered to the farm.

In addition to their dealer organization, most companies maintain a staff of salaried salesmen. Thus as of August 1, 1948, Canadian Industries Limited employed a sales staff of 131 persons, of which 44 were technically trained male employees actively engaged in selling fertilizers. In 1947 total payments to this sales force amounted to \$257,706. or about 2.3 per cent of their total sales of fertilizer. Cost of selling, administrative and technical services combined on one grade of mixed fertilizer 2-12-6, were estimated at about \$2.59 per ton or about 8 per cent of the farm selling price. Agricultural Chemicals Ltd., also employs salaried salesmen and its selling expenses in the year ended June, 1948, amounted to about 7.5 per cent of its total sales. United Farmers Co-operative Co. Ltd., sells through its local affiliated co-operatives and it reported no separate selling expenses.

EVALUATION OF FACTORS CONTRIBUTING TO THE PRICE CHANGES OF THE PAST FEW YEARS

General Conditions of Demand and Supply

Both the demand for and the production of mixed fertilizers and fertilizer materials have grown rapidly since 1939. Mixed fertilizers and fertilizer materials used in Canada during the year ended June, 1947, amounted to 661,000 tons, almost double the 334,000 tons used in 1939. Exports, mainly materials, have increased at a similar rate from 376,000 tons in 1939 to 791,000 tons in 1947. Higher farm incomes and the urgent demand for food during the war and post-war years have both contributed to the rise in domestic demand for fertilizers but a wider knowledge among farmers of the benefits to be derived from fertilizers is likely to result in a continuation of higher demand levels. Export demands have also been very keen as many areas are attempting to restore the soil deterioration that occurred during the war years.

Increased application of fertilizer is an essential element in achieving greater food production throughout the world. This is particularly true in areas such as western Europe where the land has been farmed for centuries and the level of crop production falls off quickly when plant foods such as fertilizers, animal manures and crop residues are not returned to the soil. Before the war western Europe used about one-half of all the commercial fertilizers applied throughout the world. The supply of fertilizer was drastically reduced during the war and with the decline in livestock numbers the supply of animal manures also fell off. As a result the soil has been starved for food. With the severe food shortage the world demand for fertilizer is at the highest level in its history. Nitrogen in particular is in short supply and western European countries plan to increase their production by two-thirds within the next three years. In the meantime Canada's fertilizer exports are making an important contribution towards increasing world food production.

Though all fertilizers have been scarce, the shortage of nitrogen materials has been most acute. Because of the shortage, the Inter-

national Emergency Food Council of the United Nations has continued to allocate total world production of nitrogen for fertilizer purposes. Canada's quota for the year ended June, 1949, has been set at 26,000 tons of nitrogen and this is considered to be ample to meet all our requirements.

Despite the large expansion in Canada's production of fertilizer there have been relatively few changes in the structure of the industry. The construction of three new plants to produce ammonia and ammonium nitrate for war purposes has made Canada an important producer of ammonium nitrate. In the domestic market this material has largely replaced imported nitrate of soda, but the major portion of Canada's output is exported. Another change has occurred in the phosphate field. As a result of a marked increase in output, Canadian Industries Limited is now supplying a larger proportion of Canada's supply of superphosphate than it was before the war. C.I.L.'s share has risen from something like one-half to about two-thirds, while imports which supply the remainder have fallen proportionately. For potash materials Canada is still entirely dependent on imports, and supplies have been scarce. In 1947 about 60 per cent of the potash imported to Canada was obtained from the United States and the remaining 40 per cent from French North Africa. Because of the scarcity, this was distributed among Canadian fertilizer manufacturers through a manufacturer's advisory committee.

Some measure of the relative importance of various costs in fertilizer production can be gained from the following breakdown of the gross value of production in the industry.

TABLE 131
COSTS IN THE FERTILIZER INDUSTRY^a
CANADA, 1946

	Amount (thousands of dollars)	Per cent
Salaries and Wages	5,930	13.1
Materials used	18,065	40.0
Fuel and Electricity	3,232	7.1
Depreciation, other Expenses and Profits	17,965	39.8
Gross Value of Production	45,192	100.0

^a In preparing this table \$4.8 million was deducted from both materials used and gross value of production. This eliminates approximately a duplication which results from the fact that finished products at one stage of the industry become raw materials of a later stage.

Source: Dominion Bureau of Statistics, Ottawa.

The importance of profits, depreciation and other expenses in this industry is unusually great. This can be partially explained by the heavy capital investment in the primary stage of the industry which results in large depreciation allowances. Profits, particularly on export sales, may also be important.

The Relation of Export and Import Prices

Because Canada both exports and imports a substantial amount of fertilizer materials, prices in foreign markets have an important relation to prices here. For both of Canada's two chief exporters, North American Cyanamid Limited and the Consolidated Mining and Smelting Company, current prices in the export market are substantially above their Canadian prices. North American Cyanamid said its policy was to maintain prices in both countries at the same level and in accordance with this policy it had advanced its Canadian prices rapidly in the latter part of 1947 after price controls had been abandoned. These Canadian prices were subsequently reduced by order of the Wartime Prices and Trade Board, and as a result, in July, 1948, they were still well below the firm's United States prices. In contrast the Consolidated Mining and Smelting Company has maintained Canadian prices well below export prices and has shown a loss on Canadian fertilizer sales for some time. This firm's Canadian prices were advanced in July, 1948, in an attempt to put the Canadian business on a paying basis; the company's representatives did not feel that its substantial profits on export sales should be used to subsidize Canadian sales. The range of difference between the selling prices of these two companies in Canada and United States is shown in the following table.

TABLE 132
SELLING PRICES OF FERTILIZER MATERIALS,
CANADA AND THE UNITED STATES OF AMERICA
(price per ton f.o.b. plant, July 1948)

	Canada (dollars)	U.S.A. (dollars)
North American Cyanamid Ltd.		
Ammonium nitrate	63.00	79.50
Cyanamid	51.50-53.50	58.25
Consolidated Mining and Smelting Co.		
Ammonium nitrate, etc.	55.00	58.00
Ammonium sulphate	35.00	40.00
Ammonium phosphate 11-48	60.00	77.50
Ammonium phosphate 16-20	42.50	53.50

Source: Evidence, Royal Commission on Prices, pp. 130, 152, 214, 216.

It will be noticed that the price spread varies all the way from about five per cent to 30 per cent. Particularly noticeable is the wide variation in the price of ammonium nitrate. The Consolidated Mining and Smelting Company reports a United States selling price of \$58.00 per ton which is \$5.00 per ton below the Canadian selling price of North American Cyanamid and \$21.50 below the latter's United States selling price.

Comparative Canadian and United States prices for identical grades of mixed fertilizers in adjacent regions of the eastern part of the continent

show that Canadian prices have been about \$4.00 per ton or more lower. Canadian Industries Limited's price of superphosphate to dealers and farmers was also below the United States price but by a much smaller amount. On the other hand the selling price of superphosphate in bulk to the manufacturer f.o.b. Baltimore is well below C.I.L.'s price, but the cost of freight makes the United States product more expensive to the Canadian mixer. Mr. Grose of the United Farmers Co-operative Co. Ltd., reported superphosphate from C.I.L. cost them 88 cents per unit as compared with \$1.25 per unit from Baltimore.

Unit Costs and Selling Prices

Information on changes in unit costs and selling prices of fertilizer materials and mixed fertilizers provide a basis for judging what factors have contributed to the rise in fertilizer prices. In the following paragraphs data are presented on ammonium phosphate, ammonium sulphate, ammonium nitrate and on a standard grade of mixed fertilizer, 2-12-6.

The first table gives the changes in costs and selling prices for the two materials which are most important in the Canadian sales of the Consolidated Mining and Smelting Company.

TABLE 133

COSTS AND SELLING PRICES OF TWO FERTILIZER MATERIALS, CONSOLIDATED MINING AND SMELTING COMPANY (CANADIAN OPERATIONS)

(dollars per ton)

	1939	1947	Six months ended	
			June, 1947	June, 1948
Ammonium Phosphate 11-48				
Operating Costs	28.81	40.59	40.00	43.85
Bags, Bagging and Loading	2.47	3.73	3.58	4.21
Depreciation	14.95	4.78	4.78	5.20
Interest on Investment in Plant and Working Capital	4.52	1.64	1.64	1.76
Selling Expense	—	—	5.85	6.01
Total Cost	—	—	55.85	61.03
Profit or (Loss) per ton	—	—	(6.02)	(3.68)
Weighted Selling Price at Plant	—	—	49.83	57.35
Ammonium Sulphate				
Operating Costs	9.38	15.59	15.19	16.38
Bags, Bagging and Loading	2.47	3.73	3.58	4.21
Depreciation	7.23	3.85	3.85	3.80
Interest on Investment in Plant and Working Capital	2.70	1.51	1.51	1.51
Selling Expense	—	—	1.42	1.79
Total Cost	—	—	25.55	27.69
Profit or (Loss) per ton	—	—	5.55	5.37
Weighted Selling Price at Plant	—	—	31.10	33.06
Profit as Per Cent of Selling Price	—	—	17.8	16.2

This statement shows that operating costs for these two materials have increased by about 50 and 75 per cent respectively since 1939. However, this increase is counteracted to a substantial extent by the reduction in the unit cost of depreciation and interest on plant and working capital, thus enabling the company to keep the increase in its selling prices well below the increase in material costs. The selling prices in the Prairie provinces of ammonium phosphate 11-48 increased by only \$5.00 per ton between July 1, 1939, and July 1, 1947, and the prices of ammonium sulphate increased by only \$6.00 per ton. A further price increase of about \$9.00 per ton for the 11-48 and \$5.50 per ton for ammonium sulphate became effective on July 1, 1948. Part of this price increase would be absorbed by the increase in freight rates, but despite this, the price increase on ammonium phosphate is larger than the loss shown in the first half of 1948, and should establish some margin of profit. The price increase on ammonium sulphate should further increase its profit margin; in the first half of 1948 the profit on this product amounted to 16.2 per cent of the factory selling price. However, Canadian sales of this product in 1947 amounted to less than 7,000 tons.

The next table presents data on unit costs and selling prices of ammonium nitrate for North American Cyanamid Ltd. The company commenced operations in 1947, having purchased a war plant from the government in December, 1946.

TABLE 134

COSTS AND SELLING PRICES OF AEROPRILLS, AN AMMONIUM NITRATE FERTILIZER, NORTH AMERICAN CYANAMID LTD. (CANADIAN OPERATIONS)

(dollars per ton)

	1947	June 1948	July 1948
Manufacturing Cost before Depreciation	41.70	43.75	46.35
Estimated Selling, Administrative and General expense ^a	.60	.60	.60
Cost of Sales before Depreciation	42.30	44.35	46.95
Depreciation	6.93	7.14	7.80
Net Operating Income	4.50	6.32	8.25
Selling Price f.o.b. Plant ^b	53.73	57.80	63.00
Depreciation plus Operating Income	11.43	13.46	16.05
Depreciation plus Operating Income as Per Cent of Selling Price	21.3	23.2	25.5

^a) Estimate based on annual statement.

^b) Prices for June, and July, 1948, are delivered prices less average cost of delivery of \$7.00.

Source: Evidence, Royal Commission on Prices, p. 124.

The above table indicates that manufacturing costs increased about 11 per cent between 1947 and July, 1948. Realized selling prices, however, have increased much more than this and as a result the margin between cost and selling price, depreciation plus operating income, has increased by about 40 per cent. If the Wartime Prices and Trade Board had not intervened this company would have shown a much higher margin of profit, for the company increased its f.o.b. plant selling price to \$70.25 per ton in September, 1947. The price was subsequently reduced at the Board's direction. The high rate of depreciation per ton is partly due to the fact that the company was granted permission to charge depreciation on its plant at double the normal rate. Because the annual amount of depreciation charged is distributed uniformly throughout the year the monthly variation in depreciation is not significant; accordingly when comparing the months of June and July with other periods a comparison of depreciation plus operating income is more accurate than for either total separately. It can be concluded that about one half of the price increase that occurred between 1947 (average) and 1948 is due to an increase in the firm's net operating income plus depreciation.

Data on the costs per unit of producing mixed fertilizers were submitted by three firms and this is summarized in the following table.

TABLE 135
COSTS AND SELLING PRICES OF MIXED FERTILIZER 2-12-6
(dollars per ton)

	Canadian Industries Ltd. Beloeil, Que.		Agricultural Chemicals, Ltd. Port Hope, Ont. 1948 ^b	United Farmers Co-operative Co. Ltd. Ontario 1948 ^b
	1947 ^a	1948 ^b		
Cost of Materials	17.04	18.49	20.06	22.00
Mixing Loss	.09	.09	.40	.43
Bags and Bagging	1.71	1.92	3.36	2.15
Manufacturing Expense	4.24	5.20	3.25	5.00
Selling, Admin., and Technical Services	2.59	2.59	3.28	
Freight Equalization	.35	.50	.29	
Total Cost	26.03	28.79	30.64	29.58
Manufacturer's Profit	4.42	1.66	(19)	.87
Dealer's commission	2.25	2.25	2.65	2.65
Selling Price f.o.b. Plant	32.70	32.70	33.10	33.10

a) Estimated costs as of December, 1947, used in setting price of \$32.70 per ton.

b) Estimated costs, August, 1948.

Source: Evidence, Royal Commission on Prices, pp. 59-65, 243, 1840.

Profit Margins and Selling Prices

In attempting to evaluate the relation of profits to the rise in prices two criteria will be used—(1) profit as a percentage of total sales, and (2) profit as a rate of return on the company's investment. Wherever possible comparison will be made between the pre-war and post-war situation. In the fertilizer industry, data from five companies are available, two producers of fertilizer materials, two producers of mixed fertilizers, and one company which produces both. These will each be

considered in turn. Data for the two producers of fertilizer materials follow.

TABLE 136

STATEMENT OF INCOME AND EXPENDITURE, FERTILIZER DIVISION,
CANADIAN SALES, CONSOLIDATED MINING AND SMELTING CO. LTD.

(thousands of dollars)

	1939		1947		January 1, June 30, 1948	
	Amount	Per cent of Sales	Amount	Per cent of Sales	Amount	Per cent of Sales
Gross Value of Sales	544.6	100.0	3,684.8	100.0	2,125.9	100.0
Sales Expense	122.6	22.5	388.6	10.5	203.2	9.4
Operating Cost	342.2	62.8	2,951.5	79.0	1,720.4	81.0
Depreciation	168.7	31.0	340.4	9.3	197.3	9.3
Interest on Investment in Plant and Working Capital	52.9	9.7	119.7	3.2	69.1	3.2
Loss	141.9	26.4	115.5	3.2	64.0	3.0

Source: Evidence, Royal Commission on Prices, p. 153.

The Consolidated Mining and Smelting Company has shown a loss on its Canadian fertilizer sales in all years for which data were presented. While showing an over-all loss it has been able to make some provision for depreciation of its plant and equipment. The price increases which became effective July 1, 1948, should allow the Company to show a profit during the coming year on its Canadian sales.

TABLE 137

STATEMENT OF INCOME AND EXPENDITURE, FERTILIZER DIVISION,
CANADIAN SALES, NORTH AMERICAN CYANAMID LTD.

(thousands of dollars)

	1939		1946		1947		January 1, June 30, 1948	
	Amount	Per cent of Sales	Amount	Per cent of Sales	Amount	Per cent of Sales	Amount	Per cent of Sales
Net Sales	254	100.0	638	100.0	2,041	100.0	1,328	100.0
Cost of Sales	241	94.9	563	88.1	1,852	90.8	1,112	83.8
Selling Expenses, Pension Plan and Admin. Expenses	23	9.2	20	3.1	51	2.5	32	2.4
Net Income before Tax	10 ^a	4.1 ^a	56	8.8	137	6.7	183	13.8
Dominion and Provincial Taxes	—	—	26	4.1	62	3.0	72	5.4
Net Income	10	4.1	30	4.7	75	3.7	111	8.4

a) Loss.

Source: Evidence, Royal Commission on Prices, p. 214.

Separate information is available on the Port Robinson plant which was constructed by the Dominion government for the production of nitrogen during the war and was subsequently sold to North American Cyanamid Ltd., in 1946. The following statement reflects profits obtained from the sale of all products of which the most important are ammonium nitrate and sulphuric acid.

TABLE 138

RELATION OF INCOME, SALES AND CAPITAL EMPLOYED, WELLAND WORKS
NORTH AMERICAN CYANAMID LTD., PORT ROBINSON, ONTARIO.

(per cent)

	Percentage of Sales, six months ended June, 1948			Percentage of Capital Employed	
	Total	Domestic	Export	1947	Six months ended June, 1948
Net Income before Tax	24.6	17.2	26.2	13.0	19.0
Net Income after Tax	15.7	11.0	17.3	7.1	12.1
Depreciation plus Net Income after Tax	24.3	20.2	25.7	19.2	18.8

Source: Evidence, Royal Commission on Prices, pp. 1833, 1836, 1837.

These data indicate that the high rate of profit as a percentage of sales earned by this company during the first half of 1948 was due in substantial part to the company's export sales. Nevertheless the company's earnings after tax from its domestic sales amounted to 11 per cent of these sales. In comparison with total sales domestic sales were 26.3 per cent and contributed 18.5 per cent of the company's total net income after tax. The high rate of depreciation which has been charged is the result of special permission granted by the Dominion government. The company defended it on the ground that the plant is a high cost producer and will have difficulty competing when normal supply conditions return to the industry. The sharp increase in the company's earnings in 1948 is reflected in the last two columns of the above table. Net income after tax increased from 7.1 per cent of capital employed in 1947 to an annual rate of about 24 per cent in the first half of 1948. If this level of earnings continues the company will recover during 1948 in the form of depreciation and net income after tax an amount equal to 37.6 per cent of the total capital employed in the plant.

A third important producer of fertilizers is Canadian Industries Ltd. Data on the sales and profits of this company are shown in the following table.

TABLE 139

STATEMENT OF INCOME AND EXPENDITURE,
AGRICULTURAL CHEMICALS DIVISION, CANADIAN SALES,
CANADIAN INDUSTRIES LTD.

(thousands of dollars)

	1939		1946		1947		Six months ended	
	Amount	Per cent of Sales	Amount	Per cent of Sales	Amount	Per cent of Sales	June, 1947	June, 1948
Sales	3,888	100.0	10,191	100.0	11,082	100.0	100.0	100.0
Cost of Sales	3,135	81.7	8,729	85.7	9,568	86.3	81.7	81.6
Expenses	443	11.5	725	7.1	929	8.4	6.7	7.0
Operating Income	260	6.8	737	7.2	584	5.3	11.6	11.4
Income Taxes	50	1.3	361	3.5	258	2.3	5.1	4.3
Net Income	210	5.5	375	3.7	326	3.0	6.5	7.1
Investment	4,066		6,618		8,219			
Return on Investment		5.2		5.7		4.0		

Source: Evidence, Royal Commission on Prices, p. 93.

In the statement filed before us the above company showed an inventory reserve of \$125,562 in 1947 and reported its net income as lower than shown above by this same amount. In making up the above table this item was added back to net income in order to make the statement more comparable with those of other companies. The company contends, however, that this is not a profit from its viewpoint, but is a legitimate cost. It will be noted that because of the seasonal nature of the company's operations the rate of net income shown during the first half of the year (which is the last half of the fertilizer year) is much higher than the income finally realized for the year. From the above statement it is evident that up to the end of 1947 this company has been receiving a progressively lower rate of return on its investment and a lower profit margin on its sales. However, price controls were in effect until June 30, 1947. Since then, there is evidence of a small increase in net income.

The above statement includes income earned both from sales of superphosphate and mixed fertilizers. A breakdown of the company's operations between these two main products shows that the company incurred an operating loss on its sales of superphosphate in 1939 and 1947 and showed only a small profit in 1946. Net profits on its sales

of mixed fertilizers were accordingly somewhat higher than the percentages shown in the above table. This is shown in the following table.

TABLE 140

NET INCOME AFTER TAX (BUT BEFORE INVENTORY RESERVE) AS A PERCENTAGE OF SALES, AGRICULTURAL CHEMICALS DIVISION, CANADIAN INDUSTRIES LTD.

(per cent)

	Mixed Fertilizer	Superphosphate	Total
1939	9.3	6.5 ^a	5.5
1946	4.2	2.1	3.7
1947	4.5	.3 ^a	3.0

^a) Loss.

Source: Evidence, Royal Commission on Prices, p. 1696.

For the two remaining companies appearing before us, Agricultural Chemicals Limited and the United Farmers Co-operative Co. Limited, production is confined to mixed fertilizers. Both companies also sell some fertilizer materials without mixing and the latter company sells some insecticides, fungicides and weed killers. The relation of income to sales for these companies is shown by the following table.

TABLE 141

NET INCOME AS A PERCENTAGE OF SALES, AGRICULTURAL CHEMICALS LTD. AND UNITED FARMERS CO-OPERATIVE COMPANY LTD.

(per cent)

Fiscal year ended in	Agricultural Chemicals Ltd.	United Farmers Co-operative Co. Ltd.
1939	4.8 ^a	—
1946	—	4.6
1947	4.2	4.6
1948	5.4	6.2 ^b

^a) Loss.

^b) Data are for nine months only.

Source: Evidence, Royal Commission on Prices, pp. 228, 1839.

SUMMARY AND CONCLUSIONS

Higher costs for imported materials, higher manufacturing costs and in one instance a high rate of profit have all contributed to the rise in fertilizer prices. Reductions in the supply of materials available from pre-war sources in Europe together with the urgent world demand for fertilizers to help restore food production levels have resulted in

prices in world markets which are well above domestic levels. Domestic price levels have been kept somewhat below world levels by a combination of export and price controls.

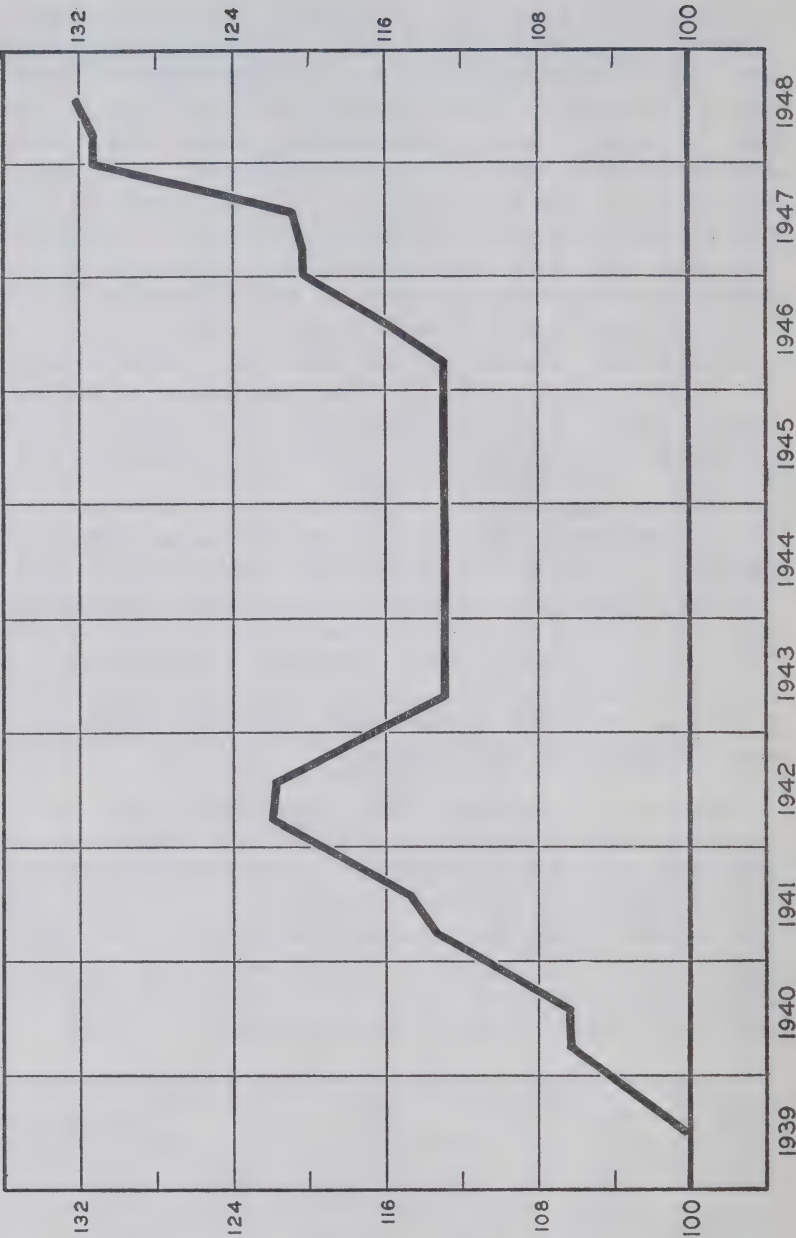
In Canada production of fertilizer materials is concentrated in the hands of a relatively small number of firms and in many instances one firm has a virtual monopoly in a particular area. We have found that plants producing fertilizer materials in Canada are on a large scale and call for heavy capital investment. Waste by-products from other operations have been a major consideration in leading to the commencement of production and are a factor in cost of production. Thus both the size of the plant, the large capital required, the limited availability of a low cost waste by-product from some other operation, make it difficult for new firms to enter the field. Because of this, competition cannot be relied upon to keep prices at reasonable levels under present circumstances. During the war three new plants were constructed by the Dominion government for the production of nitrogen materials but since, at the end of the war, these were sold to existing fertilizer producers, the degree of monopoly in the field has not changed to any extent.

Where competition is limited in this way, reliance must be placed on the restraint of individual producers if undue rises in prices are to be avoided. Generally, we found this restraint had been forthcoming. Prevailing higher prices in the export market tempted one firm to raise domestic prices to the level of export prices, but the Wartime Prices and Trade Board, by rolling back prices and re-establishing controls, placed the prices for the products of this firm on a level with those of other producers. Even so, higher profits accounted for a large part of the price increase that was allowed.

One of the fertilizer firms appearing before us stated that in requesting the Wartime Prices and Trade Board for an increase in its ceiling prices it had estimated its costs on the basis of costs which had already risen, cost increases of which they had some intimation, and cost increases which they expected because they knew that their suppliers were faced with rising costs. If all firms showed this much foresight in anticipating price rises during an inflationary period the result might well be an almost vertical upward movement in prices.

In the production of mixed fertilizers higher costs have been a major factor in contributing to higher prices. While many of these cost increases have been unavoidable there is evidence that some of the industry's costs are not entirely necessary. Early in the war, by reducing certain selling costs and eliminating the cross haulage of fertilizer through a system of zoning, it was possible for the industry to grant a substantial reduction in prices. It would be extremely desirable to have this benefit retained as part of the industry's normal cost structure. Profits do not seem to have been of any importance in causing a rise in the prices of mixed fertilizers.

CHART XV
FARM FERTILIZER PRICE INDEX
(1935-39 = 100)



Source: Dominion Bureau of Statistics, Ottawa.

8

THE HIDES AND LEATHER INDUSTRY

THE major increase in the price of hides and skins, leather, and leather products, occurred in the fall of 1947 at the time when price controls were abandoned in this field. This final price jump had been preceded by an upward adjustment of about 20 per cent in January, 1947. Following final decontrol the wholesale price index of hides and skins, which in August, 1947, was about 50 per cent above its 1939 level, jumped a further 50 per cent to reach a point about 125 per cent higher than it had been in 1939. The index of leather prices rose by an almost equal amount. Since that time there has been a sharp recession in hide prices and a partial recovery. Leather prices have also fallen off about 10 per cent, somewhat less than the drop in hide prices. The explanation of these price changes requires some elaboration of the nature and competitive structure of the hides and leather industry.

DESCRIPTION OF THE INDUSTRY

The hides and leather industry falls into two distinct stages, the production and curing of the hide and the actual tanning process. The first stage, the hide production, occurs at the time the animal is killed and is carried on by the different groups in the slaughtering business. These consist of the large and small packers, the city abattoirs which comprise numerous small independent abattoirs throughout the country, and what is known as country slaughter, animals killed by farmers and small town butchers. Considerable variation in the quality of hides arises as a result of the skill and care used by these different groups in removing and curing the hide. The best quality hides come from the large packing plants where experienced workmen, each working on part of the hide, remove the hide with a minimum of knife marks and trim it to a specific pattern. Small packers also produce a good quality hide but one that is slightly inferior to those produced by the large packers. Hides produced in the city abattoirs are known as city or butcher hides and their quality is much inferior. Hides from the third source, animals killed by farmers, are of still lower quality for it is common to find the hide scarred with knife marks and cuts which will be reflected in the finished leather. Both of these last groups are usually collected by dealers who cure the hides and sell them.

Curing of hides is necessary because bacterial action sets in once the hide or skin is removed and will soon spoil it. The three methods

that are used in curing are the wet salted, dry, and dry salted. In wet salting, hides are spread out on a hide cellar floor, liberally covered with clean coarse salt and built into packs. For heavy hides, such as cattle hides, these packs are allowed to sit or cure for 30 days. For the lighter skins, such as calfskins, only a few days of curing are needed to preserve them. In the dry process, hides are cured by simply stretching them and exposing them to sun and air, and the dry salt process is the same, except the hides are first salted. As a rule, Canadian tanners will accept only wet salted hides for their methods are adapted to that type of cure and other types require a change in processing. Skins, on the other hand, are received in all types of cure. The most important of these, calfskins, are imported in substantial quantities wet salted, and packed in casks.

Leathers are produced from three types of pelt, namely hides, kips and skins. The larger animals, such as steer, cow, bull and horse, produce hides which in the wet salted state weigh from 25 to 55 pounds or more. Kips are skins of younger animals of the same type but with skins which usually weigh from 15 to 25 pounds. Finally, skins are produced from the lighter animals such as calves, sheep, goat and deer, and in the case of calves the top weight is 15 pounds.

Domestically produced hides and skins may be purchased directly by the tanner from the packer or the dealer who buys country and butcher hides, but more frequently tanners will hire the services of a broker to act as an agent in this transaction. Hide brokers maintain connections with numerous packers and dealers and have a specialized knowledge of the hide market. They act as agents for the tanners, advising them as to current market conditions and hides that are available, seeking out sources for special requirements and purchasing on the tanners' behalf. They maintain a full time staff of experienced hide inspectors who grade and weigh the hides after a purchase has been made. One tanner who formerly employed his own inspectors explained to us that he found the use of a broker more economical because he was unable to keep his inspectors employed steadily. In Canada there are five hide brokerage firms, one in Montreal, three in Toronto and one in the West. These firms maintain inspectors in different cities across the country. It was estimated by one broker that from 80 to 90 per cent of all hides purchases by tanners in Canada are made through the agency of brokers. This same broker said his charge was nine cents per hide in Canada and 10 cents per hide for purchases on behalf of customers in the United States. Because of rising costs it had been increased from seven cents per hide at the beginning of the year. Brokerage fees in the United States are materially higher—one estimate placed them in a range of 12½ cents to 30 cents per hide.

At the tannery, hides are prepared for tanning by a series of processes known as wetting or soaking (to wash out dirt and salt), liming

(to loosen the hair), dehairing and fleshing. After completion of these operations hides are tanned either by a vegetable or chrome process. In Canada, most heavy leathers, such as sole, belting, and harness leather, are vegetable tanned, a process that requires from six to nine months. In this process the hides are first hung on frames and placed in rocker vats for a period of 10 to 15 days. Following this, the hides are transferred to lay-away vats, spread out flat and sprinkled with vegetable extract. A liquor solution is then added and the hides remain undisturbed for from three to six months, although the liquor may be changed several times during this period. After the tanning is finished, a rather elaborate finishing process follows in which oils are restored, and dyeing, glazing or buffing operations take place. In chrome tanning, which is much quicker, the hides or skins are placed in large tanning drums containing chrome chemicals. After being removed from the drums the hides may be split on a belt knife to produce leather of the required thickness. In this operation the portion next to the hair side is known as the grain and the remainder or flesh side is called the split. The grain and split are then tumbled in revolving drums containing a combination of water, soap and oils known as fat liquor. Dyes are sometimes added in a subsequent drumming operation to produce a variety of coloured leathers. The finishing operation follows. Chrome tanning is used chiefly for the lighter leathers, upper leather or calfskins.

The quality of the finished leather depends largely on the inherent quality of the hide that is used for tanning. Most tanners said that there had been no change in their tanning methods since before the war and that all their leather was subjected to the same tanning process. One firm reported the introduction of a new process resulting in an improved sole leather and another firm reported a change in tanning methods which was resulting in a better product. But in general the view expressed was that leather quality today was just the same as it had been before the war. Any deterioration in the quality of the manufactured leather products was attributed to the use of substitute materials or the use of inferior parts of the hide for a given purpose, such as the use of belly leathers instead of bend leather for shoe soles.

The Canadian tanning industry can be divided into four main groups, the sole leather tanners, upper leather tanners, the sheep, kid and goat skin tanners and the group which manufactures garments from horse hides, the leather garment section. Each of these groups has its own section in the Tanners Association of Canada. While some tanners manufacture leathers which would fall into more than one of these groups, the production of many firms would fall largely or entirely into one of these divisions. In judging the degree of competition within the industry, these subdivisions must be considered.

LOCATION OF INDUSTRY

The industry is located primarily in Ontario where, in 1946, the value of production amounted to 86 per cent of the total for all Canada. Quebec, with 12 per cent of the total in 1946, is the only other important source. The value of production for the main types of leather in Ontario, Quebec and the rest of the country is indicated in the following table.

TABLE 142

LEATHER PRODUCTION, CANADA, 1946

(millions of dollars)

	Ontario	Quebec	All other provinces	Canada
Sole Leather	14.3	.1	.1	14.5
Upper Leather ^a	16.8	3.7	.3	20.8
All Other	18.1	2.9	.7	21.7

^a) Upper leather made only from cattle and horse hides and calf skin. Does not include patent leather or splits, both of which are grouped under "all other".

Source: Dominion Bureau of Statistics, Ottawa.

COMPETITIVE STRUCTURE AND SIZE OF FIRMS

In the industry as a whole there were, in 1946, 78 plants largely owned by separate firms; several of the larger firms own or control a number of plants. Of these plants six are primarily sole leather tanners, and the rest are distributed throughout the remainder of the industry. In 1946 there were 26 firms with a production over \$500,000 and they produced 89.5 per cent of the industry's total product. Of the firms in the sole leather group, the five largest in 1946 accounted for about 96 per cent of the total sole leather production. For upper leather the five largest plants produced 52 per cent of the total upper leather in 1946. Evidence produced before us indicated that two large firms produced most of the calfskin upper and patent leather, but there would be some competition with this product from other types of upper leather. While no detailed information is available on the rest of the leather industry, it is evident that a few large firms tend to dominate the production of sole leathers, patent leathers and, to a lesser extent, upper leathers.

NATURE OF INVESTMENT IN THE INDUSTRY

Because of the long period required to tan leather, the leather tanning industry is characterized by a heavy investment in inventories relative to

its investment in plant and equipment. This is shown by the following table which gives data for nine of the larger tanning companies.

TABLE 143

COMPOSITE BALANCE SHEET, FIVE SOLE LEATHER TANNERS AND FOUR UPPER LEATHER TANNERS, FISCAL YEAR END NEAREST DECEMBER 31, 1947

(thousands of dollars)

	Five Sole Leather Tanners	Four Upper Leather Tanners	Total for Nine Firms
Cash and Marketable Securities	730	4,750	5,480
Accounts Receivable and Prepaid Expenses	2,041	1,514	3,555
Inventories, Gross	8,076	4,919	12,995
Total Current Assets	10,847	11,183	22,030
Less Current Liabilities	3,616	3,297	6,913
Total Working Capital	7,231	7,886	15,117
Fixed Assets less Reserves for Depreciation	2,610	998	3,608
less Long Term Indebtedness	30	3	33
	2,580	995	3,575
Other Assets	1,227	277	1,504
Shareholders' Equity	11,038	9,158	20,196

Source: Evidence, Royal Commission on Prices, pp. 1726, 1727.

The ratio of investment in inventories to investment in fixed assets (after deduction of depreciation reserves) was about three to one in the case of the five sole leather tanners and five to one for the four upper leather tanners. The possibility of sudden price declines makes the carrying of large inventories extremely risky and the financial structure of the larger tanners has been adapted to meet such risks. This is shown by their large current ratio, more than three to one and by the extremely small proportion of long term indebtedness.

The production period in the tanning industry varies considerably, depending on the type of tanner. Heavy leathers such as sole, belting and harness leather, require six months or more if, as is generally the case, they are vegetable tanned, whereas calfskins, which are chrome tanned, may require as little as six to eight hours. One large sole leather tanner reported that his average tanning period was about six months, while an important tanner of calfskins reported his average processing time at two months. In addition to this, tanners must wait for about two months from the date of purchase of their hides until actual receipt. In the interim the hides are inspected and cured. Some manufacturers reported that another factor affecting their inventory was the necessity of building up a stock of hides, which were only available

at certain seasons of the year, in order that they might maintain a uniform rate of production. In addition to increasing the risk of loss from price changes in the industry the large inventory required makes inventory movements and the basis on which they are valued an extremely important factor in the pricing policies of the industry.

In discussing the way in which prices are determined in the industry and the price changes over the last few years, it is convenient to begin with the prices of the industry's principal raw material, hides and skins, and tanning materials, and then proceed with the finished leathers. For each the various demand and supply factors affecting prices will be considered. The following table provides a basis for judging the relative importance of various cost factors in the tanning industry.

TABLE 144

PRODUCTION COSTS, LEATHER TANNING INDUSTRY, CANADA, 1946

	Amount (thousands of dollars)	Per cent
Hides and Skins	28,732	50.4
Tanning Materials	6,926	12.1
Salaries and Wages	9,224	16.2
Fuel and Electricity	939	1.7
Depreciation, All Other Expenses and Profit	11,178	19.6
Total Value of Product	56,999	100.0

Source: Dominion Bureau of Statistics, Ottawa.

HIDES AND SKINS

Though the price of hides and skins is affected by both demand and supply considerations the relationship is somewhat unusual. Hides and skins are produced only at the time that the animal is slaughtered, usually for meat purposes. But since the value of the hide or skin is only a small proportion of the value of the whole animal, 10 per cent or less, it can be considered a by-product of meat production. Even a large variation in the price of hides will have only a small effect on the value of the whole animal and because of that the supply of hides is peculiarly unresponsive to changes in their selling price. In consequence, the supply of hides will depend largely on the volume of meat production. When cattle slaughterings are heavy as they were in Canada during 1945, the supply of hides will be increased; when slaughterings fall off as they did during 1946 and 1947, the supply of hides will also decline.

And because the supply of hides is so unresponsive to changes in their selling price the variation in hide prices is usually great. An increased demand for leather products at a time when meat production

and therefore hide production is steady will result in a rise in hide prices and a decline in stocks on hand. Since under a general condition of expansion the demands for both meat and leather products, to some extent, rise and fall together there will usually be some increase in both meat and hide production during a period of rising demand. But the demand for leather products usually fluctuates more widely than the demand for meats and as a result very low hide prices with a piling up of stocks usually occurs during a depression and sharp rises in prices and a drawing down of stocks during a period of prosperity.

This relative inelasticity in the production of hides and skins also made it much easier to maintain price ceilings on them. As long as the domestic supply of hides was adequate, the retention of price ceilings along with export controls made it possible to keep the price of hides and leather well below their prices in world markets. Yet this low price did not result in any falling off in the hide supplies except in so far as it may have encouraged hoarding. On the other hand it did encourage an increase in the consumption of leather products and in 1947, prior to decontrol, some imports of hides and skins under a subsidy arrangement were necessary to meet the domestic demand. Nor did the retention of controls interfere unduly with Canada's leather exports. Under a special arrangement introduced in 1947, exports were allowed provided there was an equivalent import of unsubsidized hides and skins.

For cattle hides which made up about 65 per cent by value of all the hides used in Canada's tanning industry during 1946 Canada has for long produced just about enough to satisfy domestic requirements. There has been considerable year to year variation in this; some years Canada has been a net importer of cattle hides and other years a net exporter; but over the period from 1930 to 1939 exports and imports were just about equal. Though supply has been sufficient in over-all amount the tanning industry had up until recently used a substantial percentage of imported hides while an almost equal amount of our own hides were exported. Foreign hides averaged about 50 per cent of the cattle hides used during the period from 1925 to 1929 and around 30 per cent in the years 1935 to 1939. That heavier hides were obtainable in the United States and the Argentine was the chief reason for these imports. Under the restrictions imposed during the war, greater use was made of domestic hides and by 1946 the use of imported cattle hides had fallen to only one per cent of the total. However, with the decline in cattle slaughterings in 1947, there was a sharp increase in imports though the use of foreign hides was still estimated at only 15 per cent of the total, only half the proportion of imported hides used in the period 1935 to 1939.

For calfskins the supply situation is somewhat similar to that of cattle hides though Canada has always been slightly more dependent on imported skins. This is balanced on the demand side by the fact that, as compared with cattle hide leather, a larger proportion of our

calf and kip skin leather has been exported. Imports of calfskins have always exceeded exports. In the period from 1930 to 1934 this excess averaged about one-third and from 1935 to 1939 it was about 10 per cent of our calfskin exports. As is true of cattle hides, imported calf and kip skins form an important part of our domestic supply. In the period from 1935 to 1939 they made up 35 per cent of the total used by the tanning industry, though in the latter part of the war this proportion had fallen to 15 per cent. During 1947 in the face of declining domestic supplies and an increased export demand for calfskin leathers, imports of calfskins increased sharply and contributed 42 per cent of our total supply. Exports in contrast were negligible. These heavy imports have continued during the first half of 1948 but exports of calfskins have also increased as the industry began to move back to its pre-war supply pattern. Our major sources of calfskin imports in the past have been the United States and New Zealand.

When price controls were taken off hides and skins, leathers and leather products in September, 1947, consumption of leather products had increased substantially over pre-war levels. The domestic supply of sole leathers in 1946 was up about 75 per cent over 1939 and the supply of upper leather had increased by 70 per cent. At the same time the spread between the Canadian and the United States price for hides and leather was much greater than the spread between the general price levels of these two countries. Accordingly there was some reason to expect a marked rise in the prices as soon as the ceiling was removed. Even though controls were still retained on exports this was not sufficient to prevent competition for the available supply of hides from forcing a rise in price, particularly since tanners had been importing higher priced hides under a subsidy arrangement during the year.

The domestic supply of cattle hides and calfskins consists of three major packers, a substantial number of small packers and over 100 hide dealers. It has been estimated that in 1947 the large packers produced about one-half of all the cattle hides and somewhat more than a third of the calfskins. Because there was some diversion of slaughterings out of their usual channels during the meat packing strike these percentages would probably be higher in other years. The structure of the leather tanning industry which provides the entire domestic demand for hides was discussed above. In buying hides the sole leather tanners restrict themselves almost entirely to the large packer hides whereas the upper leather tanners may use a substantial proportion of small packer, city and country hides.

At decontrol, prices of light native cowhides actually rose from 18 cents to 29 cents a pound and remained at that price until March 1948. The amount of the price rise and its steadiness during the ensuing six months seem to have the result of an informal agreement among the tanners to refrain from offering any higher price, an agreement which had the tacit consent of the major packers. Such an informal agreement was suggested by the Chairman of the Wartime Prices and Trade Board

but at a price level midway between the last ceiling price, 18 cents, and what was, at that time, the United States price of 29 cents a pound. Apparently the packers were unwilling to accept a price as low as 22 or 23 cents but they subsequently concurred in the maintenance of the 29 cent price. During the following six months prices in the United States at first continued to rise reaching a peak in November of 37.5 cents per pound but thereafter it declined until in the middle of February it was actually two cents per pound below the Canadian price. In March, however, the Canadian price was reduced five cents a pound and since that time up to the date of this report has remained somewhat below the United States level.

Since the removal of price ceilings in September a decline in finished leather sales and an accumulation of stocks has occurred; as a consequence fewer hides are being used in the industry. Wettings of cattle hides during the first five months of 1948 are almost 25 per cent below last year's level. Export sales of upper leather have fallen sharply, but sole leather exports in contrast have risen to higher levels. With fewer hides being used and with a higher level of cattle slaughterings early in the year there was some accumulation of cattle hides up to the end of March, 1948. At that date stocks of cattle hides were 55,000 or about nine per cent above their level a year earlier. But since the removal of export controls at the end of March, stocks have declined rapidly and at the end of June, 1948, they were 188,000 below their level in June, 1947. Effective January 1, 1948, the United States import duty on hides and skins was reduced from 10 per cent to five per cent thus further encouraging export sales.

These data point to the conclusion that the export price has a very strong influence on the domestic price, and as long as it remains at a high level, a falling off of the domestic price is very unlikely. If export controls had been retained there is reason to believe that the sharp decline in hide consumption in this country and the rising stocks, which had begun to appear, would have forced a greater decline in domestic price levels. This was, of course, less likely to occur as long as there was any anticipation that export controls might be removed. On the other hand the fact that prices of packer hides have continued below the United States price levels even though export controls have ended is an indication that the packers have shown some restraint in their domestic prices. This is not true of country hides and the spread between the price of packer and butcher hides has narrowed substantially since the removal of export controls at the end of March, 1948. However, prices during the summer months are somewhat nominal because of the small volume of slaughter.

The recent removal of restrictions on the export of live cattle to the United States will further deplete the Canadian supply of hides. The quota of cattle which can be exported at minimum rates of duty is now 400,000, almost 20 per cent of the number of hides produced in Canada during 1947. Though Canada's exports of cattle hides have

exceeded her imports by a substantial amount thus far in 1948, if shipments of live cattle to the United States are heavy, the resulting decline in domestic hide production may cause this trend to be reversed.

TANNING MATERIALS

By August, 1947, the wholesale price index of tanning materials had advanced about 79 per cent over its level in the period 1935 to 1939. In May, 1948, a further jump in prices occurred and these materials now cost more than double their pre-war amount. Most of our tanning materials are imported, chiefly from South America.

SALARIES, WAGES AND PRODUCTIVITY

Wage rates in the tanning industry have advanced substantially over their 1939 level. An index of straight hourly wage rates increased by 115.7 per cent between 1939 and 1947. Since then there has been some further increase as shown by the fact that average hourly earnings of hourly rated wage earners in this industry increased about 12.5 per cent between July 1, 1947, and July 1, 1948. Several tanning firms reported that their wage agreements contained a cost-of-living bonus which results in an automatic increase in wage rates as the cost-of-living index rises.

Because there is relatively little variation in the quality of the product in this industry it has been possible to make an estimate of the change in productivity that has occurred since 1939. An index of output per wage-earner increased from 100 in 1939 to 108.4 in 1945 and then declined slightly to 107.1 in 1946. Data on the number of hours worked by wage-earners in each of these periods are very inadequate but what data are available indicate that there may have been some decline in the number of hours worked. If this is true, output per man-hour will be up more than output per man-day.

FINISHED LEATHER

Production of finished leather varies more or less directly with the number of hides and skins that are available. Thus the factors which were outlined above as governing the supply of hides also influences the output of leather. The dependence is not complete, however, for leather production may fall off at a time when the output of hides is maintained, the result being an accumulation of hides; or, again, leather production may for a time increase by drawing down available hide stocks. When the domestic market alone is considered, the availability of hides in other world markets adds to the degree of independence in the movement of leather production. Even though hide production does not respond readily to an increased demand for leather, if this increased demand is confined to a few countries, leather production there can increase a good deal by importing hides from other countries.

The demand for leather depends on the demand for those finished products containing leather and as such it is a derived demand. In Canada, it has been estimated that 80 to 85 per cent of all cattle hide and calfskin leather is used in the production of boots and shoes. The remainder is used chiefly for such articles as harness, belting, luggage, pocketbooks, handbags, gloves, and leather garments. Some indication of the relative importance of these industries is given in the following table on production of leather goods in Canada for 1946.

TABLE 145
PRODUCTION OF LEATHER GOODS, CANADA, 1946

	Amount (thousands of dollars)	Per cent
Boots and Shoes, Leather	96,435	72.8
Gloves and Mittens, Leather	10,767	8.2
Handbags, Purses, Pocketbooks, etc.	8,686	6.6
Trunks, Luggage, Brief Cases, etc.	4,526	3.4
Harness and Saddles	2,526	1.9
Belting, Leather	1,919	1.4
Miscellaneous Leather Goods	7,510	5.7
Total	132,369	100.0

Source: Dominion Bureau of Statistics, Ottawa.

With the exception of a few industrial and farm materials, like belting and harness, the market for leather goods is largely a consumer's market.

Both imports and exports of leather are of some importance as is indicated in the following table.

TABLE 146
PRODUCTION, EXPORTS AND IMPORTS OF LEATHER,
CANADA, 1938-1940 and 1944-1946

Year	Value of Production, Leather Tanning (thousands of dollars)	Exports of Leather (thousands of dollars)	Imports of Leather (thousands of dollars)	Domestic Supply ^a (thousands of dollars)	Exports as Percentage of Total Production (per cent)	Imports as Percentage of Domestic Supply (per cent)
1938	19,661	4,217	2,612	18,056	21.4	14.5
1939	25,585	6,856	3,218	21,947	26.8	14.7
1940	28,474	6,521	3,167	25,120	22.8	12.6
1944	45,011	2,910	2,976	45,077	6.5	6.6
1945	47,339	4,004	3,510	46,845	8.5	7.5
1946	56,999	7,656	4,182	53,525	13.4	7.8

^a) Domestic Supply equals total production plus imports minus exports.

Source: Dominion Bureau of Statistics, Ottawa.

This shows that before the war well over 20 per cent of our domestic leather production was exported while imports supplied from 12 to 15 per cent of the leather used in Canada. By 1946 neither exports nor imports had reached their pre-war relative importance in the domestic market. Our leather exports in 1947 were predominantly upper leather (\$10.2 millions) but there was also a small export of patent leather (\$1.0 millions) and sole leather (\$1.0 millions). Our imports are chiefly of the finer type such as calf, goat, kid, lamb, and sheep skin leathers, which are used to a large extent in the glove and garment industry or for making miscellaneous leather products. At the present time shortages of dollar exchange in our export markets, are restricting Canada's exports of finished leathers. A reduction in the United States import duty on sole leather from 12.5 per cent to 10 per cent, occurred on January 1, but this is still substantially more than the five per cent duty on cattle hides. Despite this apparent disadvantage our sole leather exports to the United States are up sharply in 1948.

At the time controls were removed from hides and skins, the leather tanners almost immediately readjusted their selling prices. In setting these prices, the heavy inventory carried by the industry, and the nature and extent of outstanding orders were important considerations. Inventories were particularly important in the case of the sole leather tanners who carry the finished leather equivalent of from six to nine months shipments in stock. But for all tanners, the impact of the rise in hide prices was more rapid than usual because of a special agreement with the packers. Under this agreement all hides which then had been purchased by the tanners but which were still in the hands of the packer at the time controls were lifted were subject to renegotiation as to price. This meant that the packers gained the benefit of higher prices on all hides in their possession at the time of decontrol, whereas tanners had to pay the higher prices at once on that part of their stocks, normally one to two months purchases, which were still in the packers' hands.

The choices before the tanners were to set their selling prices on the basis of current replacement costs, or to make some allowance for the fact that a substantial part of their inventory had been purchased at lower prices. In the evidence before the Commission, one of the three largest sole leather tanners, the Anglo-Canadian Leather Company, indicated that since decontrol its costs on a replacement basis had advanced more than its selling prices, but because its inventory was not yet on a replacement basis, an equivalent reduction in profit had not yet been evident. This firm expressed a hope that hide prices would fall sufficiently before it reached a replacement basis to enable it to maintain its present prices without incurring a loss. In general this company said, because of its eight months inventory, it was not its policy to advance prices as soon as hides advance, nor to decrease them at once when hide prices decline. On the other hand, one of the smaller sole leather tanners, the North American Leather Company,

said that when the hide market falls, tanners have to sell their product almost entirely at the replacement value.

Upper leather tanners usually have a much smaller inventory relative to their sales than do the sole leather tanners and for that reason there may be more of a tendency to set prices on a replacement cost basis. While the evidence is not specific on this point, in describing the methods used to set their selling prices after decontrol all three upper leather tanners who appeared before the Commission seemed to indicate that they had based them on the current replacement cost of hides and skins.

Another important consideration in setting a new selling price is the existence of outstanding orders. If the firm must continue for some time to fill orders on hand at prices ruling before the advance in hide prices its new price list will only become effective on new orders. Under these circumstances an inventory method which allowed the industry to charge earlier purchases against sales would seem to be most appropriate, enabling firms to purchase hides against orders received. On the other hand because of the predominance of small firms in the leather footwear industry it is unlikely that the tanners are able to shift forward the risk of price declines by means of sales under binding orders. If orders are not considered binding by the footwear manufacturer when prices decline, the leather tanner may suffer a considerable loss through being forced to sell his high priced inventory at lower prices.

Information presented on the extent of outstanding orders in the leather industry was somewhat varied. The Anglo-Canadian Leather Company said that it did not like to accept orders beyond two months in advance of the date of delivery because of the risk of a rise in hide prices. A. R. Clarke and Co., upper leather tanners, said that it did not usually book orders more than six months ahead and that it did not like to go that far. No exact information is available as to the size of orders on hand at the time of decontrol or as to the length of time before shipments were made at the higher prices. However, for a number of companies some shipments, at least, were being made at the higher price levels within two weeks. Two companies stated definitely that orders on hand were filled at the old price. It is possible that orders had been kept to a minimum at that time in anticipation of the removal of price ceilings and the situation might not be representative of the normal course of events in the industry. Several companies said that while orders were considered binding at a time of price advance, this was not true in a period of price decline. At a time of a decline in hide prices leather purchasers expected a reduction in leather prices even on previously outstanding orders. All companies appearing before us stated they had made some reduction in their selling prices early in March shortly following the sharp decline in hide prices, but the reduction was considerably less than the fall in hide prices.

In setting their price on leather, the most important factor in the tanners' cost calculations is the cost of hides and skins. Ordinarily,

however, tanners do not like to change their prices too frequently, because of the trouble of getting out new price lists and because of the upsetting influence of frequent price changes on their chief customer, the boot and shoe industry. Consequently, they tend to ignore minor fluctuations in hide prices and only change their prices for leather when a substantial change in hide prices occurs. At such a time they will also adjust their selling prices for any changes that have occurred in their other costs. Thus, following decontrol of hides and leather prices in September, 1947, tanners increased their prices sufficiently to cover both the rise in hide prices and other changes in costs that had accumulated.

In setting these new prices the tanners were in the position of having to help in determining the price of both hides and leather. What they could afford to offer for hides would depend to some extent on what they could expect to sell their finished leather for. This in turn would require some estimate of how consumer demand would react to the higher priced leather goods. In arriving at these new price levels the most important factor seems to have been price levels prevailing in the United States. This was true even though at that time export controls were still retained on hides and skins. As long as these controls were retained the high price of leather cannot be attributed to the rise in hide costs. Since the supply of hides is relatively independent of price changes, their price level depends on the anticipated willingness of the consumer to buy that supply in the form of finished leather goods at prices which would maintain such a level of hide prices.

The nature of price competition in the tanning industry differs somewhat in the different sections of the industry. In the sole leather section, where there are five large firms, there is a condition of monopolistic competition. In this type of situation it is frequently alleged that firms will follow price cuts by their competitors but will refuse to follow price advances. The evidence presented before us would seem to show that the truth of this depends somewhat on the circumstances. In September, 1947, when the sudden rise in hide prices made some increase in leather prices necessary, the Anglo-Canadian Leather Company issued the new price list first and apparently the other firms in the industry followed it. In March, one of the firms reduced its prices and Anglo-Canadian met this reduction. The firm's manager said that he would not raise his price at the present time if another firm did because he did not think the situation warranted it. This would seem to indicate that in a dynamic situation firms in the industry will follow both price rises and price cuts if they think they are to their advantage. At the same time they seem more ready to follow price cuts than price rises.

In the upper leather section of the tanning industry, one firm denied any knowledge of its competitors' prices. The firm's representative stated that its price list was not published but issued only to its salesman who communicated it to customers. Competitors would obtain knowledge of it only through quotations left with a customer. He said that the firm judged the adequacy of its prices by its volume of sales. On the other

hand, another firm producing in the same field admitted a knowledge of other firms' prices and said that following decontrol the prices of the various firms were soon adjusted to a similar level. Some firms' initial prices were lowered and others were raised when it was learned what other firms were charging.

MANUFACTURERS' PROFITS—LEATHER TANNING

In order to assess properly the effect of manufacturer's profits upon prices it is necessary to consider the accounting methods used by the various firms in valuing their inventories. In a period of changing prices such as 1947 reported profits will differ substantially depending upon the particular accounting method used. This is especially true of an industry such as leather tanning which must carry large inventories.

Up until 1946 the most widely used methods throughout the tanning industry were average cost and "first in first out" (FIFO). During 1947, a year of rising hide prices, four of the largest tanning companies adopted the "last in first out" basis of inventory valuation. In making this change the firms were attempting to protect themselves from the consequences of a sudden decline in hide prices such as had occurred in 1920. Fear of a price decline has been increased because of the knowledge that there are large stocks of cattle hides being held in Argentina which, if placed on the market, would cause a sharp fall in prices.

Where a "first in first out" method is used the earliest purchases, and in a period of rising prices the lowest priced purchases, would be charged to sales first. Thus a leather tanning firm using this method would only be able to charge his higher cost hides of each type to sales after he had used up all of his lower cost hides. But if he had set his selling price on the basis of current replacement costs, and the evidence indicates this was the general practice, he would be showing a much larger profit than if he had based his selling price on his actual recorded cost. However all of this larger profit, often called inventory profit, would be required to finance the higher cost inventory. On the other hand even if the firm using a "first in first out" method had set its selling price on the basis of its actual recorded cost and hence did not make an inventory profit of this type, it would find it necessary to obtain funds to finance the higher priced inventory from other sources, such as bank loans or out of the firm's ordinary profits.

When an "average cost" method is used the effect is somewhat similar except for the fact that a longer time will elapse before the lower cost inventory will be charged out. Under this method firms are allowed to charge to sales an average of all their materials on hand so that the recent higher priced purchases become a part of the average.

When a firm uses a "last in first out" (LIFO) method it will charge the cost of its most recent purchases to its sales. This means, in effect, that the current replacement cost of materials during the accounting period are charged to sales. In a period of rising prices this will result

in the firm showing a much lower profit than if it had used one of the former methods and the value of its inventory will show little change. When prices fall again the firm using the LIFO method will show a larger profit (or smaller loss) than a firm using either an "average cost" or "first in first out" method. However, over a period of years during which prices rise and then fall again the total profit for the period will not vary appreciably with different accounting methods provided one method is used consistently throughout. The adoption of the LIFO method by a number of tanners in 1947 will help keep the higher hide prices from being reflected to any substantial extent in their inventory and will help protect them from showing heavy losses at a time when hide prices decline. In this way it will help to contribute to the stability of the industry.

Up to the present the Department of National Revenue has not officially approved the use of inventory accounting methods which involve the charging of current replacement costs to sales. However accountants generally accept in theory that one of these methods, the "last in first out" (LIFO) is appropriate in industries such as leather tanning where it is necessary to carry large inventories whose raw material content is subject to substantial price fluctuation. The LIFO method has been accepted for income tax purposes in the United States and has been recommended for certain industries by the American Institute of Accountants.

Information on the net profit of five sole leather tanners and four upper leather tanners provide a basis for judging the relation of profits to selling prices in the tanning industry. The sales of these nine firms have increased substantially since 1939 and in 1946 amounted to over 55 per cent of the total sales in the industry. Both increased volume and higher prices have contributed to this rise. Operating income, which is the income from the operations of the business (before provision for taxes on income) increased even more rapidly than sales from 1939 to 1946, with a slight recession in 1947. The following table shows sales and operating income as a percentage of sales in each year.

TABLE 147

SALES AND PERCENTAGE OF OPERATING INCOME TO SALES,
NINE LEATHER TANNERS

Year	Nine Companies		Five Sole Leather Tanners		Four Upper Leather Tanners	
	Sales (thousands of dollars)	Percentage Operating Income to Sales (per cent)	Sales (thousands of dollars)	Percentage Operating Income to Sales (per cent)	Sales (thousands of dollars)	Percentage Operating Income to Sales (per cent)
1939	15,609	7.9	7,751	7.8	7,858	7.9
1946	31,821	13.7	19,826	11.8	11,995	16.9
1947	37,520	11.1	21,877	5.5	15,643	18.8

Source: Evidence, Royal Commission on Prices, p. 1722.

Some of the larger share of each sales dollar which went to cover the operating income of these firms in 1946 would go to pay taxes on income. Since it is not possible to determine whether a reduction in the amount of these taxes would have resulted in lower prices or a higher net profit to the firms no conclusion can be reached as to the effects of higher corporate income taxes upon prices.

As was pointed out above, during 1947 four of the companies adopted the "last in first out" (LIFO) basis of inventory valuation; a fifth company has followed this basis since 1939. These companies together handled 54 per cent of the total sales volume of the group in 1947, (42 per cent of the sole leather group and 69 per cent of the upper leather group). The use of such a basis excludes "inventory profits and losses" from operating income and, as 1947 was a year of increasing prices for hides, the profits of that year are lower for those companies which applied this method than they would have been had they followed the more usual "first in first out" or "average cost" basis which previously had been used by all but one of the companies. The change in basis of valuation by these four companies does not make it improper to compare their 1947 and 1946 results; for 1946 was a year of relatively steady prices and had these companies adopted a LIFO basis at the beginning of 1946 their operating results for that year would not have been materially different than those determined by applying "first in first out" or "average costs". However, when comparing profits in this industry with those in other industries some allowance should be made for the fact that inventory profits are partially excluded.

Net profit of the nine companies increased from 1939 to 1946 but in 1947, for the group as a whole, was less proportionately to sales than in 1939. This will be seen in the following summary.

TABLE 148
PERCENTAGE OF NET PROFIT TO SALES,
NINE LEATHER TANNERS
(per cent)

Year	Nine Companies	Five Sole Leather Tanners	Four Upper Leather Tanners
1939	6.3	6.3	6.2
1946	7.0	6.7	8.6
1947	5.8	2.9	9.7

Source: Evidence, Royal Commission on Prices, p. 1723.

All of the decline in 1947 was due to the lower profits of sole leather tanners. For upper leather tanners, net profits as a percentage of sales increased further in 1947.

If all of the above firms had adopted a LIFO basis of inventory valuation in 1947, net profit as a percentage of sales for the year would have been lower than above.

While net profit remained relatively constant as a percentage of sales, it increased in amount very substantially with the higher sales volume. Capital employed was also larger, but it did not increase nearly

as much as sales, so that the net profit represented a larger return on the shareholders' investment. This will be seen from the following table.

TABLE 149

NET PROFITS AND PERCENTAGE OF NET PROFITS TO SHAREHOLDERS' EQUITY, NINE LEATHER TANNERS

Year	Nine Companies		Five Sole Leather Tanners		Four Upper Leather Tanners	
	Net Profit (thousands of dollars)	Percentage Net Profit to Shareholders' Equity (per cent)	Net Profit (thousands of dollars)	Percentage Net Profit to Shareholders' Equity (per cent)	Net Profit (thousands of dollars)	Percentage Net Profit to Shareholders' Equity (per cent)
1939	982	7.5	490	6.4	492	8.9
1946	2,242	11.7	1,204	10.6	1,038	13.2
1947	2,164	10.7	641	5.8	1,523	16.6

Source: Evidence, Royal Commission on Prices, p. 1723.

It will be noted that the combined net profit of the five sole leather tanners was less in 1947 than in the previous year but the four upper leather tanners, as a group, improved their profit position.

There was considerable variation in the amount of net profits obtained, both as a percentage of sales and as a percentage of the shareholders' equity. This is shown in the following table.

TABLE 150

NET PROFIT AS A PERCENTAGE OF SALES AND AS A PERCENTAGE OF THE SHAREHOLDERS' EQUITY, NINE LEATHER TANNERS^a
(per cent)

	1947		1939	
	Per cent of Sales	Per cent of Equity	Per cent of Sales	Per cent of Equity
Upper Leather Tanners				
Company A	9.5	31.5	-7.9	-2.6
Company B	9.9	11.1	12.3	10.4
Company C	5.2	14.0	2.2	5.2
Company D	11.2	17.2	6.6	11.4
Average	9.7	16.6	6.2	8.9
Sole Leather Tanners				
Company E	2.2	4.2	-2.0	-1.5
Company F	2.2	6.0	.5	1.1
Company G	-2.5	-9.2	13.0	38.5
Company H	5.3	5.3	17.9	10.9
Company I	4.2	16.3	5.5	13.3
Average	2.9	5.8	6.3	6.4
Average for Nine Companies	5.8	10.7	6.3	7.5

^a) Data in the above table are for the companies' fiscal year corresponding most closely to the calendar year. In calculating net profit all charges to reserves (except depreciation and bad debts) were excluded. Equity represents the shareholders' equity and consists of share capital, surplus, and reserves (other than bad debts and depreciation).

Source: Evidence, Royal Commission on Prices, p. 1793.

Some of these nine companies sold a substantial amount of their leather on the export market during 1947 and there is evidence that the profits obtained from these sales were much larger than profits on domestic sales. One company submitted the following data.

TABLE 151

NET PROFIT AS A PERCENTAGE OF SALES, UPPER LEATHER
TANNING COMPANY A
(per cent)

Year	Per cent of Total Sales	Per cent of Domestic Sales	Per cent of Export Sales
1946	7.5	4.3	9.5
1947	9.5	6.2	12.5

For sole leather tanners it may be concluded that net profits in 1947 were not only a smaller percentage of sales but yielded a smaller rate of return on the shareholders' equity than in 1939. In contrast, for upper leather tanners, net profits in 1947 as compared with 1939 were a substantially larger percentage to sales and because of the larger volume of sales yielded almost twice as large a rate of return to the shareholders' equity. Part of this gain was due to the high rate of net profit obtained on export sales during 1947.

Because price controls were not removed until September 15, 1947, the above data do not indicate clearly the relation of net profits to sales since that date. Data for one upper leather tanner show a decline in net profits as a percentage of sales from 10.15 per cent in the first six months of 1947 to 5.83 per cent in the first six months of 1948. Though a substantial part of this decline may be due to a reduction in the margin of net profit on export sales, it does suggest that profit as a percentage of domestic sales for this firm has not increased during 1948.

SUMMARY AND CONCLUSIONS

The hides and leather industry was one in which price controls were applied with little detrimental effect on supply, due to the fact that its raw materials are a by-product of the meat industry and therefore are largely unaffected by price. However, as part of its general program of decontrol, the Canadian government removed price controls from this industry in September, 1947.

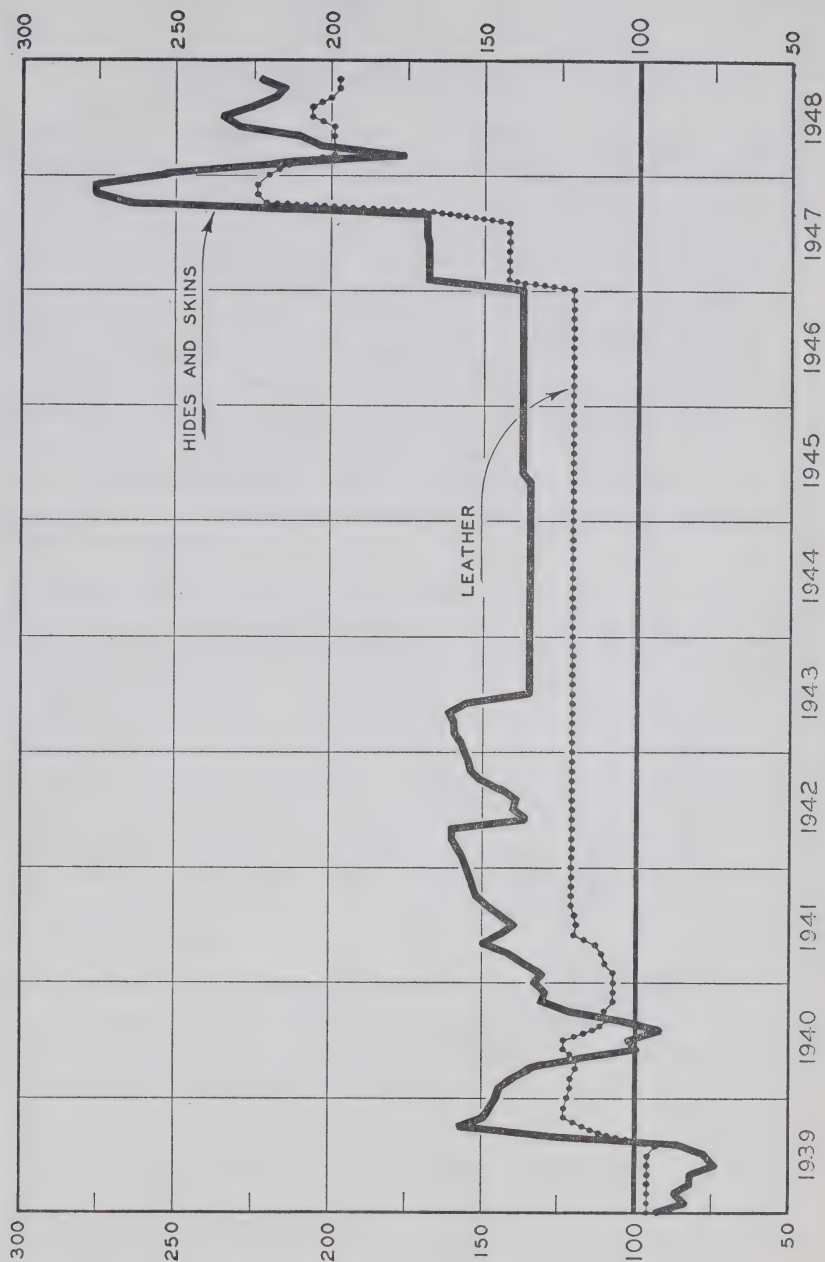
Once price controls were removed the industry had to establish new price levels for hides and leather which would equate the prospective demand for products containing finished leathers with the available supply of hides and skins. Since export controls were retained on hides, prices in world markets should not have directly affected domestic prices but the evidence indicates that they were taken as a guide when domestic

prices were set. At the time of decontrol the tanners and packers were asked by the Wartime Prices and Trade Board to show some restraint in setting prices and a price midway between the ceiling price and the United States price prevailing at that time was recommended. However the packers apparently insisted on advancing prices to the United States level but subsequently refrained from any further advances when the United States price level continued to rise. Evidence that prices were advanced further than was justified on the basis of the demand for leather in Canada is provided by the accumulation of hide stocks that followed the price rise. These accumulations ceased once export controls on hides were removed at the end of March, 1948, and the anticipation of such a removal may have influenced the prices that prevailed throughout the winter. Thus it is apparent that prices in world markets, and in the United States in particular, had a substantial influence on the prices that were established for hides and leather following decontrol in September 1947.

While prices of hides and skins are of fundamental importance in determining the price of finished leathers, the substantial advance in wage rates in the industry and in the price of tanning materials have contributed to the higher prices now prevailing. Even with respect to hides and skins the heavy inventory that is carried makes the immediate effect of changes in prices upon the price of finished leathers somewhat uncertain. In general most tanners seem to set their price on the basis of the replacement cost of hides though there was some evidence that sole leather tanners may base their prices to some extent on actual accounting cost. If all firms used a "last in first out" method for valuing their inventory, accounting cost would be almost identical with replacement cost. While this would result in changes in raw material prices being reflected more rapidly in the price of finished leathers it would result in fewer fluctuations in profits in the industry. Four of the tanners appearing before the Commission adopted the "last in first out" method in 1947 and as a result would show a smaller profit than firms using the more customary "average cost" or "first in first out" methods. If all firms were to adopt the same method it would make a comparison of their profit position much easier. When no information is available on the accounting method used it is impossible to interpret accurately a company's statement during periods of price change.

The advance in leather prices following decontrol cannot, we think, be attributed exclusively to the earning of higher profits. The volume of sales has declined since that time and a number of firms indicated that their profits in 1948 were much lower than in 1947. During 1947 the net profits of the upper leather tanners who appeared before us were substantially higher than in 1939 but an important part of this may have been due to profits on export sales. Net profits of sole leather tanners, on the other hand, though larger than 1939 in absolute amount were a smaller percentage of sales and yielded a lower rate of return on the shareholder's equity than in 1939.

CHART XVI
HIDES AND LEATHER WHOLESALE PRICE INDEX
(1935 - 39 = 100)



Source: Dominion Bureau of Statistics, Ottawa.

9

LEATHER FOOTWEAR

PRODUCTION of leather footwear in Canada increased rapidly immediately after the end of the war and in 1946 the industry produced 44 million pairs, a record high. At that time, retail shoe prices still under control, were only about 16 per cent above their level in August, 1939, and this relatively favourable price stimulated a record level of demand. While restocking of retail stores absorbed part of this, sales to the consumer were also unusually high. Export sales reached a record level of 3.1 million pairs in 1946, largely to the British West Indies, Newfoundland and to various European countries under contracts with UNRRA. In 1947, however, production declined to about 35.6 million pairs and at current production rates the industry will only produce about 27.5 million pairs in 1948. This latter estimate is only 10 per cent higher than the 1935-1939 average. Both domestic and export sales have fallen off sharply.

A major factor in the decline in sales has been the price rise. An advance of 11 per cent on men's and children's footwear and nine per cent on women's footwear was authorized early in 1947 following an increase in the ceiling prices on leather. Subsequently, in April, footwear prices were decontrolled entirely but the major price rise did not come until after the removal of the ceiling on hide prices in September. Since then footwear prices have advanced sharply. Retail prices by December, 1947, were up 42 per cent over their level in August, 1939, and by June, 1948, they had advanced still further to 168 per cent of the 1939 level. This is somewhat more than the rise in the total cost-of-living index, which stood at 154.3 on June 1, but it is somewhat less than the advance in the index of clothing prices.

The various elements that have contributed to this advance in price can be better understood after a general examination of the structure and character of the leather footwear manufacturing industry and the practices of retail merchandisers of shoes.

LEATHER FOOTWEAR MANUFACTURE

Location and Structure of the Industry

In Canada leather footwear manufacturing is carried on primarily in Ontario and Quebec by a large number of small and medium sized firms. In 1946 the gross value of production in the industry was \$96.4 million and of this 65 per cent was produced by firms in Quebec and

31 per cent by firms in Ontario. During the period of rapid growth in footwear production at the war's end there was a large influx of new firms into the industry, the number of establishments increasing from 228 in 1944 to 294 in 1946. The majority of these new firms were small, for the number of new firms employing less than 50 persons increased by 50 during this period. Not only are there a large number of firms producing footwear, but the proportion produced by the larger firms is relatively small. In 1946 the five largest plants produced slightly less than 12 per cent of the industry's total product. In the same year the 36 largest plants, all plants with a production in excess of \$700,000, produced just over 46 per cent of the Canadian total. Though there are a few firms that own more than one plant, this would not materially change the above picture.

Because of the large number of firms and the inability of a few firms to dominate the industry, footwear production is highly competitive. All firms, of course, are not competing directly with one another for there is a considerable degree of specialization both as to type and quality of footwear produced. Some firms specialize in the production of men's footwear, others in women's or in juvenile and children's footwear, while still others may combine one or more of these types. Further, within each of these types there may be a certain degree of specialization in different price ranges. Some firms produce only a high-grade, high-priced shoe for the quality market, while others will produce mainly in the medium-priced or low-priced range. A number of the larger firms in the industry have succeeded in building up some degree of monopoly for their product by means of well-established, nationally advertised brand names.

The United Shoe Machinery Company

An important factor in maintaining a unique state of affairs in the industry has been the United Shoe Machinery Company of Canada Limited which leases most of its machinery rather than sells it. This company has a patent monopoly on a large proportion of the industry's machinery and it was estimated that only about 25 per cent of the shoes produced would not involve this company's machinery for at least part of their construction. In the main, the company has preferred to exploit its patent monopoly by renting its machinery on a combined rental and royalty basis, rather than by selling the machines outright. Only the less important types of machines, about 30 per cent of the total, are sold. The effect of this has been to make it easier for new firms to come into the industry. Since it is not necessary to purchase expensive machinery all that is required to begin production is a building and sufficient funds to meet working capital requirements. New entrants are in this way encouraged. While this fosters a high degree of competition in shoe production, it may also lead to an over-competitive condition characterized by periodic over-production and a high rate of failure among the smaller firms.

Data submitted by the Shoe Manufacturers' Association show the following rate of failure among leather footwear firms in the pre-war period.

TABLE 152

FAILURES IN THE LEATHER FOOTWEAR INDUSTRY
1936-1941

Year	Number of Plants	Number of Failures
1936	219	9
1937	221	21
1938	213	13
1939	222	12
1940	217	14
1941	210	13

Source: Evidence, Royal Commission on Prices, p. 685.

It can be assumed that most of these failures were among newly established small scale firms that failed to make good. Throughout this period as some firms failed, others took their places and there was little change in the total number in the industry. The output of these additional firms would tend to exert a downward pressure on shoe prices.

Over 75 per cent of the machinery supplied by the United Shoe Machinery Company of Canada is now manufactured in Canada, the remainder being imported from the parent company in the United States. In addition to supplying machines, the company also sells a wide range of boot and shoe findings; total sales of these products in 1947 amounted to over \$2 million. It controls the distribution of elastic box toe caps and imports and distributes about 90 per cent of the shoe eyelets used in Canada.

The lease arrangements used by the company are extremely complicated. The three standard types of lease provide for some combination of an initial payment, a flat rate monthly rental, a unit charge for each shoe produced on the machine and a deferred payment or termination charge, which is payable only when the lease is terminated and the machine is returned to the company. Four per cent of the combined monthly rental and unit charge is credited to the customers' account each year and this is available to meet the deferred payment which is due at the time the machine is returned. An additional charge is levied if the machine is used less than a minimum amount during any month. However, part of this last charge is refunded. To allow for the normal seasonal slack in the industry, minimum charges for the four months in which operations are at their lowest point are automatically refunded. In addition, a refund would be made equal in amount to the four per cent deducted from the monthly rental and unit charge during that year. It

was estimated that about 80 to 85 per cent of all charges collected for machines used less than a minimum amount are refunded. These terms were set by the parent company and no explanation was given for them. However, it seems clear that this complicated arrangement is designed to give the producer an incentive to use the machine supplied by the United Shoe Machinery Company as much as possible. In slack times a footwear manufacturer can reduce his costs by discontinuing the use of machines which he owns outright or rents from other companies and maintaining production on machines of the U.S.M.C. For one type of machine on which evidence was submitted, the Goodyear Outsole Rapid Lockstitch Machine Model 0, it was estimated that the annual payment for use of the machine at the minimum rate would be \$504. The original average cost of this machine was reported to be \$1,333.94. The average net book value of 13 of these machines as of March 31, 1948, was \$713.11.

The various charges made under these lease arrangements are determined by the parent company in the United States and some of these are substantially higher in Canada than they are in the United States. Monthly rentals are, in most instances, from about 25 cents to \$2.50 per machine higher in Canada, though there were some instances where the rental was \$9.00 or more per month higher. In most cases the initial and deferred payments are the same in both countries. No data were submitted on the relative levels of unit charges in the two countries. The company attributed the higher rates to the higher cost of service charges in Canada. Leased machines are serviced free of charge by the company, though the shoe manufacturer has to pay for any new parts. It was alleged that the larger size of shoe manufacturers in the United States made it possible to service machines more cheaply.

Because of the complicated system used for leasing its machinery it seems evident that the cost of administration and keeping separate records of transactions for individual manufacturers must be extremely high. Likewise, each footwear manufacturer is faced with these heavy costs in keeping similar records. This is an unnecessary cost from the economy's standpoint and can be maintained only because this company is in a monopolistic position.

The average cost per pair of shoes for unit charges and rentals was estimated at 4.18 cents in 1947. Individual shoe manufacturers submitted estimates of machine cost per shoe varying from 3.19 cents per pair to 7.94 cents per pair. Higher rates on rentals became effective on June 2, 1947, but they would only become effective at the time leases came up for renewal. The increases varied from about five to 20 per cent.

Nature of Product

The different makes of boots and shoes produced are classified by rather technical names depending on the type of machine process used in their production. The Goodyear Welt process, considered to be the best, is used extensively in the better quality men's shoes. It has the advantage that there is no exposed stitching or nails in the insole, that

the sole is more firmly attached to the upper, and that the shoe retains its shape well. Since it requires more operations, it is also the most expensive process but gives much the longest wear. In the process known as McKays and Littleways, the upper is lasted with tacks and nails to the insole and then the insole is stitched to the outsole. This process is used extensively in the production of women's and growing girls' footwear. Stitchdowns are similar to the above except the upper is stapled to the insole and a Goodyear lockstitch is used to attach the outsole. Various types of cemented shoes in which the outsole is cemented on have become much more popular in recent years, particularly for women's and girls' footwear.

PRICING AND SELLING POLICIES

Relation of Costs to Selling Prices

It is the general practice for footwear manufacturers to estimate their production costs for each basic type of shoe on their costs for materials, labour and machinery expense. One firm reported that it determined its selling price by adding 35 per cent to this cost to cover administration, selling expenses and profit. It reported that this was a standard practice which had been followed for at least nine or 10 years. It was claimed that there was no specified amount of this which was an estimate for profit, that both expenses and profit would vary with the volume of sales. Other firms made an estimate for these other expenses and added a certain percentage for profit. Their estimates are apparently based on the assumption of some expected volume of sales. Variations from the basic shoe type would be priced by making certain added charges.

A number of firms reported that it was necessary to vary the selling price determined in this manner so that the shoe would sell at a price which would fit into the retailers' established price lines. They said there were certain price lines that were fixed in the minds of the public and unless a shoe was sold at a price by the manufacturer that would give a retailer his normal operating margin at one of these established prices the retailer would not buy it. One manufacturer reported that he would sometimes vary the quality of the shoe by using substitute materials for the sole or cheaper materials in the upper or lining in order that the factory selling price could be kept at a level which would meet the retailers' requirements. The need to change their shoes to meet this inflexible retail pattern could be expected to add something to the manufacturers' administrative costs.

Several firms reported that they at times had marginal lines of shoes. In these instances the selling price would be slightly less than their average cost but they continued to produce the shoe because the volume of sales was large and while the shoe did not yield a profit it absorbed part of the firm's overhead. Price theory would suggest that marginal considerations should apply to all their lines of shoes. Apparently the manufacturer is most clearly aware of the marginal factor when the whole line is selling at less than the average cost, including certain

overhead costs. In the production of each type of shoe, there is a marginal point at which the manufacturer must decide if any additional output will be worthwhile.

Relation of Inventories

Most firms reported that they kept enough leather on hand to meet their requirements for about three months. They were unwilling to reduce their stocks below this level in case they should be forced to interrupt their production because of insufficient stocks. When hide prices dropped they might reduce their stocks somewhat but not below their needs for the following three months. Data for 23 footwear manufacturers indicate that there has been a substantial decline in raw material inventories since the rise in leather prices in September, 1947. Several manufacturers reported that they followed the hide market and looked for some reduction in leather prices after a substantial decline in hide prices had occurred.

When the price ceilings were removed from hides and leather in September, 1947, the leather tanners advanced their prices immediately. Some manufacturers reported that they were in turn forced to advance their shoes prices at once to cover this increase. Others reported that they gave their customers some benefit from the lower cost inventory they had on hand and then advanced their prices at a later date on the basis of the higher cost leather. The wholesale index of boot and shoe prices for this period showed its largest jump in October, the month immediately following decontrol of leather prices; there was a further advance in November and only a small rise thereafter. This is shown by the following index of the wholesale prices of boots and shoes.

TABLE 153
WHOLESALE PRICE INDEX, BOOTS AND SHOES

(August, 1947=100)

Month	Index	Month	Index
September 1947	102.4	February 1948	128.2
October 1947	119.5	March 1948	128.2
November 1947	125.1	April 1948	125.9
December 1947	125.9	May 1948	124.3
January 1948	125.1	June 1948	122.8

Source: Dominion Bureau of Statistics, Ottawa.

It is evident that the manufacturers followed a replacement cost basis to a large extent in setting their prices in this period.

Resale Price Maintenance

A number of firms follow a policy of fixing the retail price on some or all of their shoes and they insist that the retailer shall adhere to this price. This usually occurs in the case of nationally advertised brands. Where such a policy is followed the retailer's percentage mark-up over cost is determined by the manufacturer, but it usually corresponds to the mark-up prevailing in the trade.

One firm reported its policy on resale price maintenance in some detail. For one of their shoes, the "Sisman Scamper", a uniform selling price is maintained across Canada. Retailers, however, are all charged the same f.o.b. factory price. This means that the retailer who is located close to the factory, because he has less freight to pay, obtains his shoes at a lower cost than one who is located at a more distant point; the retailer near the factory would make a slightly larger profit. If the company sets a selling price which gives the more distant retailer an adequate gross profit, this same price will presumably yield an extra margin of profit to the more favourably situated firm. However, since the average amount of freight is estimated at only about five cents or less per pair of shoes the possible difference in freight is unlikely to amount to more than one or two per cent of the retail selling price. The resale price set on these shoes yields the retailer who has to pay the average amount of freight a gross margin of 50 per cent on his laid down cost. This conforms exactly to the mark-up generally used by shoe retailers. In western Canada the retailer obtains an additional three per cent but out of this he must meet his higher freight cost. The difference is due to the fact that salesmen in that region receive a correspondingly smaller commission. This is because salesmen in the west sell only to larger accounts. No attempt is made to cover smaller centres. Thus the plant realization is exactly the same for all the company's sales.

The company stated that it was its policy to enforce this resale price and that if there was any departure from it it would cease selling to the account concerned. Resale prices were also suggested on some of its other shoes but no attempt was made to follow up or enforce these. However, this firm stated that a resale price maintenance policy was its objective for more of its lines.

The company said its reason for following this policy was to make it possible for the small retailer to carry its shoes. It was contended that before adopting this policy large chain stores or department stores would hold end-of-season sales on its product at prices which the small retailer could not match. Local customers of the small retailer, seeing these lower sale prices would cease buying locally. Presumably the existence of the nationally advertised brand would enable the local customer to identify the price difference in question. It was also contended that this resale price was a service to the small retailer who found it difficult to estimate a proper selling price and that it eliminated cut-throat competition.

None of the above contentions seems very substantial. A local retailer usually derives much of his trade from his convenient location, and from

his personal contact with his customers. It is difficult to believe that end-of-season sales would keep him from handling a nationally advertised shoe since he does in fact handle many shoes which are subject to clearance sales. In view of the prevalence of the 50 per cent mark-up in the trade, it is also hard to believe that retailers require any aid in setting their prices. On the question of cut-throat competition it seems more probable that the existence of resale price maintenance will change the form of competition rather than reduce it. If resale price maintenance becomes widespread there will be less price competition but more competition in other forms, such as the provision of services. If the resale price establishes more than a competitive rate of return, it will induce new firms to enter the field leading to over-investment in the retail field. This is particularly undesirable because the retail field has always been characterized by an over-supply of small firms and a high rate of failure.

The gain that the manufacturer expects to derive from a policy of resale price maintenance is not entirely clear. If, as the Sisman Company contends, it enables the manufacturer to induce more retail outlets to handle the product it will enable him to increase his total sales. This in turn may make the policy of national advertising more profitable.

The two companies which reported the use of a policy of resale price maintenance also reported that their sales were still increasing in 1948, whereas total sales for the industry are down. They reported that there was still a substantial amount of unfilled demand for their shoes and it was necessary to allocate them to retailers on a quota basis. The existence of an unfilled demand for their product indicates that while subject to competition, these companies could have charged higher prices for their product they have preferred to retain somewhat lower prices in order to build up a long term demand for their product. Another company which does not suggest a resale price also reported increased sales in 1948. It attributed this to its shift to production of shoes featuring an important element of style.

Quality of Shoes

Most of the manufacturers reported that there had been little change in the quality of their product. In some instances they reported improvements in certain models. One large manufacturer in the lower price field said most of the complaints regarding the quality of shoes were due to poor workmanship rather than quality of materials. However, he admitted that some manufacturers could use materials with inferior wearing qualities and that the consumer could not detect the difference at the time of purchase. He reported an increased demand for lower quality shoes since the recent rise in prices. On the other hand, most of the other manufacturers reported that the demand for quality shoes was well maintained. Some firms reported a shift to shoes featuring style. Almost all manufacturers reported that they were using a large amount of substitute materials for shoe soles and their wearing qualities compared favourably with sole leather.

Selling Policies and Selling Costs

Although some footwear manufacturers reported that they sold their shoes to all customers at an identical price, others reported different prices for different classes of customers. Thus large retailers would pay more than wholesalers and small retailers would pay a still higher price. In some instances large mail order stores would buy at the same price as wholesalers. Firms employing a resale price maintenance policy would sell direct to retailers and sell to all at the same price.

Five leather footwear manufacturers, all of whom sell relatively high grade merchandise under their own brand names, and advertise these brands in national magazines, showed the following changes in their selling, administrative and warehouse expenses as a percentage of total sales over the period from 1937 to 1947.

TABLE 154

SELLING, ADMINISTRATIVE, AND WAREHOUSING COSTS AS A PERCENTAGE OF TOTAL SALES, FOR FIVE FOOTWEAR MANUFACTURERS

Year	Per cent	Year	Per cent
1938 ^a	10.2	1943	8.5
1939	10.2	1944	8.3
1940	9.5	1945	8.6
1941	8.8	1946	9.4
1942	7.1	1947	8.5

^a) Data is for four companies only.

Source: Evidence, Royal Commission on Prices, pp. 490, 531, 569, 586 and 1706.

These costs as a percentage of sales declined during the war period, increased somewhat in 1946 and declined again in 1947. They are still smaller in relation to sales than they were in pre-war years. One company reported that it had adopted a definite policy of allocating a certain percentage of its sales to advertising.

THE SHOE MANUFACTURERS' ASSOCIATION OF CANADA

All companies appearing before us reported that they were members of the Shoe Manufacturers' Association of Canada and attended association meetings. In all, the Association has between 175 and 180 members, or about two-thirds of the total number of firms in the industry. The membership fee is based on the amount of business done by the member and varies from a minimum of \$100 to a high of \$720 per year. In addition to ordinary members provision is made for associate members. The latter are firms such as the United Shoe Machinery Company, who supply material to the industry but are not themselves footwear manufacturers.

Mr. Millington, the executive vice-president of the Association, said that one of the chief functions of the Association was to provide credit information to members. Each member submits information on the credit status of his customers and this information is compiled and sent out to all members. The Association is also engaged in a program of fostering good relations with the public. This program consists in part of educating the public to get a proper fit in their shoes and to care for them properly. This, it is hoped, will prevent unjustified criticism of the quality of shoes. It also consists in part of making people more shoe conscious which almost inevitably means being more style conscious. Mr. Millington claimed that the recent shift to more style in men's footwear was due to the demand by men for a shoe with a heavier sole because they had become accustomed to wearing heavier footwear during the war. But it was admitted that the great variety of styles are created by the manufacturer and that they increase the unit cost of production.

Information obtained from the minute book of the Association provides evidence that the Association is also interested in buying, pricing, and credit practices in the industry. The by-laws of the Association state that one of the objects of the Association is "to facilitate the collective buying of all supplies by its members", but Mr. Millington stated that this object had never been carried out in any way. One of the minutes contained a resolution that the Association should make a protest to the Tanners' Association regarding a change in credit terms on leather purchases.

Several minutes contained a reference to prices. One referred to the discussion at a directors' meeting of a complaint that the John Ritchie Company had failed to increase its price promptly in January, 1947, when the Prices Board authorized an increase. The minute stated that,

"Following discussion, it was ascertained that this particular firm had since changed its policy and now was requiring higher prices for its products. As this matter had apparently adjusted itself satisfactorily it was thought that this item should be tabled".

In reference to this minute Mr. Millington contended that the Association was not interested in the pricing policies of individual firms and they had made no representations to the John Ritchie Company. He also stated that the letter of complaint had remained unanswered but, notwithstanding this, it had been discussed at a directors' meeting; the discussion, he said, lasted about a minute and a half. When questioned on the meaning of the last sentence in the minute he said that this did not refer, as might be supposed, to the fact that the John Ritchie Company had now brought their prices into line with other manufacturers but to the fact that it was no longer necessary to discuss the matter with the person making the complaint. In another minute, a suggestion was made that certain manufacturers "should be granted permission to apply to the Federal authorities for selling at increased prices". Here again Mr. Millington contended that the Association did not deal with price

increases. He said the minute did not refer to obtaining permission from the Association.

Both credit and pricing policies are included in a code of standard practices that has been adopted by the Shoe Manufacturers' Association. Among other things, the code specifies that samples shall only be supplied to wholesalers and the larger retailers, that a charge shall be made for these samples and that any fillers or shoe trees supplied with the samples must be paid for. An extra charge is to be made on orders for single pairs. The terms on all shipments of footwear are to be 30 days net f.o.b. shipping point from requested date of delivery, states the code, and no shipments are to be made on approval or consignment. A minimum interest rate of seven per cent is to be charged on overdue bills. Mr. Millington stated that this code was considered to be a desirable set of practices for the industry but the Association took no steps to enforce it and a failure to live up to it did not affect the manufacturers' position in the Association. It is evident that adherence to these practices would help to protect the shoe manufacturers from the buying practices of large chain and department stores. Mr. Millington said the shoe manufacturer was often forced to take back unsold shoes and could not afford to refuse because he must continue to sell to the larger accounts. The code, if enforced, would also eliminate a form of price competition which would not be apparent from the stated selling prices of the individual firms.

Leather footwear manufacturing, in the main, appears to have been highly competitive and has been characterized by a high rate of failure. It is an industry which must buy and sell in markets where some degree of monopoly exists. A large part of the shoe machinery in use is supplied by one company and a considerable part of shoe production is sold to large chain and department stores. Many of the more serious difficulties which the industry has faced have disappeared with the higher level of consumer demand. The Association gained in strength during the war when it became the channel through which representations were made on behalf of the industry to government agencies. Although the evidence does not make it possible to evaluate what effects, if any, the Association has had on the degree of competition in the industry, the instances already mentioned indicate that there has been some tendency toward joint action to modify certain competitive practices and for the Association to become concerned in questions of price policy. Some examples are found in the evidence of individual shoe manufacturers endeavouring to remove their products from direct price competition in various ways, including resale price maintenance. More serious results would follow for the consumer, in our opinion, if, through or under the sponsorship of the Association, practices were encouraged which tended to restrict competition generally in the industry.

CHANGES IN COSTS AND SELLING PRICES

The relative importance of various costs in the leather footwear industry have been remarkably stable over a long period of years. This is supported by the following table which shows the percentage of various costs to the value of the product at the factory for three widely separated years.

TABLE 155

RELATIONSHIP OF COSTS, CANADIAN LEATHER FOOTWEAR INDUSTRY

(per cent)

Item	1929	1939	1946
Salaries	5.4	7.9	6.2
Wages	25.6	25.0	24.0
Cost of materials	52.5	52.6	54.3
All other, selling expenses, depreciation and profits	16.5	14.5	15.5
Total	100.0	100.0	100.0

Source: Dominion Bureau of Statistics, Ottawa.

Salary and Wage Costs

Salary and wage costs which account for about 30 per cent of the footwear manufacturer's cost have increased substantially since 1939. An index of wage rates in the industry increased 94.2 per cent between 1939 and 1947; between June 1, 1947, and June 1, 1948, average hourly earnings rose an additional 13.1 per cent. Despite this large percentage advance weekly earnings in the industry at July 1, 1948, were still only \$27.52 compared with \$41.22 in all industries. The lower wages are partly accounted for by the larger proportion of women employed in the industry. In 1946, about 42 per cent of the industries' employees were women whereas in all manufacturing the proportion of female employees was only slightly over 25 per cent.

The extent to which this rise in salary and wage costs would be reflected in factory selling prices would depend partly on what changes in productivity had occurred in the industry. Productivity is difficult to measure because of variations in the proportion of different types of shoes produced, each of which may require a somewhat different amount of labour. It will also vary with the importance of style in shoes. During the war the Wartime Prices and Trade Board by limiting the number of different styles of shoe that might be produced and by restricting frequent changes introduced considerable economy into the industry which would be reflected in increased productivity. Since the war's end, however, and particularly within the past year style is becoming a much more important factor. Unless counterbalanced by

other factors, the more frequent changes and larger number of shoe types which must be produced will inevitably reduce the output of shoes per worker. The following table which shows some data on number of pairs of footwear produced per wage worker makes no allowance for the changes in types mentioned above. Data are shown separately for boots and shoes and for other types of footwear, chiefly slippers.

TABLE 156
FOOTWEAR PRODUCTION
AVERAGE PRODUCTION PER WAGE WORKER, CANADA

(thousands of pairs per worker per annum)

Year	Boots and Shoes with Leather or Fabric Uppers	All other Footwear	Total Footwear
1926	1.29	.17	1.46
1929	1.26	.17	1.43
1937	1.38	.24	1.62
1939	1.42	.23	1.65
1945	1.75	.46	2.21
1946	1.72	.44	2.16

Source: Dominion Bureau of Statistics, Ottawa.

Much of the increased output per worker evident from the above data may be due to the larger proportion of cement type shoes produced, particularly the California process, and to less emphasis on style at the war's end. Restrictions on types of footwear were removed in 1945, but the retention of price ceilings no doubt discouraged a return to the industry's former practice at that time.

Raw Materials

The other chief component of cost amounting in 1946 to 54 per cent of the total product is raw materials. Sole and upper leather, the most important materials, were estimated in 1941 to make up about 75 per cent of all material cost. However, since the rise in leather prices in September, 1947, there has been some shift to substitute materials which might reduce this percentage somewhat. The rise in leather prices since 1939 has been an important factor in the increased cost of shoes. The wholesale index of leather prices in June, 1948, even after a 10 per cent decline from its December peak was still almost exactly double its level in 1939. Most of this rise occurred during 1947. A rise of about 20 per cent was allowed in January and when ceilings were removed in September a further jump of about 40 per cent took place. Until that time leather prices had been only about 25 per cent above their 1939 level.

Manufacturers' Profits

A consolidated statement on the sales and net profits of five footwear manufacturers has been prepared and this provides some measure of the relation of profits to selling prices in this industry. However, since these firms were larger than most firms in the industry and since they all sold nationally advertised shoes, it is not known whether their experience will be the same as that of the many smaller manufacturers.

Sales of these companies increased over 100 per cent in dollar value but only about 24 per cent in volume between 1939 and 1947. The average price per pair, a price which makes no allowance for variation in quality or the number of different types of shoes sold, increased 80 per cent. Neither operating income nor net profits were as large a percentage of the sales of these firms as they had been in 1939. However net profits in cents per pair were 2.9 cents per pair higher in 1947. This is shown in the following table.

TABLE 157

ANALYSIS OF SALES, FIVE FOOTWEAR MANUFACTURERS

1939-1947

Year	SALES		Average Unit Selling Price (in dollars)	Operating Income as Percentage of Sales	Net Profit as Percentage of Sales	Net Profit per Pair of Shoes (in dollars)
	Amount (thousands of dollars)	Quantity (thousands of pairs)				
1939	5,028	2,449	2.05	9.1	5.8	.119
1940	5,499	2,320	2.37	7.1	4.1	.098
1941	7,015	2,811	2.50	7.2	3.6	.090
1942	8,364	2,882	2.90	7.2	2.4	.069
1943	7,963	2,812	2.83	7.3	2.9	.083
1944	7,941	2,763	2.87	7.5	3.2	.092
1945	7,983	2,829	2.82	6.6	3.2	.090
1946	8,885	2,953	3.01	7.7	3.8	.116
1947	11,252	3,035	3.71	7.8	4.0	.148

Source: Evidence, Royal Commission on Prices, pp. 490, 531, 569, 586 and 1706.

Net profit as a percentage of the shareholders' equity in these companies increased substantially between 1945 and 1947. The following data indicates the percentage return on shareholders' equity.

1945	8.0
1946	14.0
1947	16.7

This sharp increase was due to higher profits and the 15 per cent decline in shareholders' investment during 1946, a decline that was due to the distribution of prior earnings in special dividends under Part XVIII of the Income War Tax Act.

It may be concluded from the above data that for these five companies increased profits have not been an important factor in contributing to higher prices, during the period from 1939 to 1947. Only three companies were able to present data on their profits during part of 1948 and the results are inconclusive. In comparison with 1947, one showed a higher percentage of operating income to sales, one showed a lower percentage and the third showed the same percentage. Because income tax rates are lower, the same operating income will yield a slightly larger net profit in 1948.

RETAIL MERCHANDISING OF SHOES

Evidence on the practices followed by retail shoe stores was given before us by the representative of a large chain store, a large department store and an independent family shoe store. In most respects these stores reported similar practices though there were some variations.

Fixed Percentage Mark-ups

All three reported that it is their practice to price their shoes by applying a fixed percentage to their laid-down cost for shoes. This practice is customary in the retail shoe trade and seems to be followed almost blindly. While the most widely used percentage is 50 per cent of cost or one-third of selling price, the T. Eaton Company reported some variation for their different shoe departments. On women's and the better grades of men's shoes they price their shoes to give them a mark-up of 40 per cent on the selling price or about 66.6 per cent over cost.

Where certain lines of shoes do not sell well at the price determined in this manner it is customary for the retailer to clear out the remaining stock at a lower price either in an annual or semi-annual sale or by special clearance sales. If necessary shoes may be sold below cost in order to clear surplus stock. During the war period these sales largely disappeared and they have only recently begun to reappear. The actual percentage obtained for the store's total sales will vary depending on the amount which must be sold at sale prices. This is shown by the statement of Pollock's Shoes Limited; this store has shown a gross profit equal to just over 31 per cent of sales in their last two fiscal years, substantially more than the margin of about 27 per cent shown in 1937 and 1938. On the other hand, for the T. Eaton Company the percentage of gross profit to sales was at about the same level in the last two years as in 1937 and 1938.

The effect of this practice is to cause retail shoe prices to move up and down at almost exactly the same rate as the manufacturer's selling price. Thus, when manufacturers' selling prices rise 20 per cent retail shoe prices also rise 20 per cent. The practice was justified on the grounds that it was a rule of thumb method which enabled stores to price their shoes without the elaborate bookkeeping method which would be required if the store were to attempt to estimate the cost attached to selling each type of shoe. It was also contended that this fixed mark-up represented the amount which experience had shown to be necessary to

cover competitive costs in the business. Otherwise, competition would have forced a lower mark-up. It is apparent that the net profit yielded by this practice will vary with the volume of sales obtained by the store concerned. A mark-up of 50 per cent may yield a large net profit when sales are heavy and yet may yield only a small net profit when the volume of sales is small.

As long as the uniform mark-up is adhered to by the trade the effect of the competition of new stores will be to reduce the volume of shoes sold by each store rather than to lower prices. This in turn may lead to an over-investment in store fittings or equipment. Just at present competition is limited by the number of retail outlets. New stores are appearing but new entrants are limited by the lack of available space and the general shortage of construction materials in turn places a limit on the number of new outlets which can be built.

In some cases the amount of the mark-up is determined by the manufacturer, and the retailer is required to sell at a specified price. Both the independent and chain shoe store approved of this practice apparently because it reduced the amount of price competition. Shoes in this class are not subject to annual sales. On the other hand the T. Eaton Company said they liked to be completely free to set their own price and they resisted this practice to some extent.

So far this year in dollar value shoe sales are up about 12 per cent, substantially less than the rise in prices. With a constant mark-up on this higher dollar value of sales the total gross profit of the retailer will also be about 12 per cent larger. The increase in net profit will depend on how much operating expenses have risen. Thus it is apparent that the use of a constant percentage mark-up protects the retailer's profit position though he may be selling fewer shoes. As long as his total dollar sales increase, his gross profit will also increase. This conclusion must be qualified to the extent that clearance sales prove necessary.

In the case of incorporated companies, part of the gain obtained by selling a larger volume of shoes at a fixed percentage mark-up has been taken away by the higher taxation rates on corporation income which are now in force.¹ Even though a fixed mark-up may have advantages in being easy to follow, there are grounds why the percentage mark-up might be reduced in inflationary periods like the present when restraint on the part of everyone concerned is essential if excessive price rises are to be avoided.

Established Price Lines

Another policy followed by some shoe retailers is the use of fixed well-established price lines. This pricing policy is used extensively by Pollock's Shoes Limited. This company sells its shoes under well known brands of its own which are stamped on the shoe by the manufacturer; each brand is sold at fixed unchanging prices, namely \$2.95, \$3.95, \$4.95, \$5.95 and so on at \$1.00 intervals. Because the company also follows a practice of pricing at a 50 per cent mark-up on cost it is necessary for them to look

¹Autumn, 1948.

for shoes at a cost which will fill fit into this line of selling prices after the application of a 50 per cent mark-up. In general practice the aim is to obtain the 50 per cent mark-up only on the average. The prices of some shoes will be raised in price above the 50 per cent mark-up over cost to fit into the store's established price lines while other shoes will be reduced in price.

During the past few years with rising prices the company has frequently asked the manufacturer to build a given shoe with lower cost materials in order that the established price line can be maintained. In general the company's representatives contended that these reductions in shoe quality were not changes which affected the shoes' wearing quality. In some instances shoes were priced at intermediate prices such as \$4.45 or \$3.25 but they try to avoid this because it results in too many price lines. This creates an added expense presumably largely in obtaining shoes to fit into each of these price lines. These additional prices may also conflict with the firm's policy of maintaining in the public mind a well defined and well known price range.

The T. Eaton Company also stated, that it tried to sell on established price lines. For this reason it might not change the selling prices with every increase in cost. In some cases it would absorb several increases in cost and later advance the selling price sufficiently to cover all of these increases at one time.

What advantage the retailer hopes to derive from a policy of established price lines was not stated. The evidence indicated, that it complicated pricing and buying policies and required production adjustments on the part of the manufacturer. All of this would increase the cost of producing and selling shoes although the amount of increase might not be large. The maintenance of price by variation in quality would reduce the amount of price competition at the retail level and presumably that is the intention.

Inventory Pricing

Little evidence was given on the way in which the inventories of retailers affected their pricing practice. All retailers indicated that sales of shoes had been extremely heavy in September, 1947, just after the price ceilings had been removed from hides and leather and the consumer bought in anticipation of a price rise. Apparently most retailers sold their stocks on hand without advancing their prices. A comparison of retail and wholesale shoe prices shows that between June and December, 1947, retail shoe prices advanced only about 11 per cent whereas wholesale prices increased almost 30 per cent. However, by June, 1948, the advance in retail shoe prices (31 per cent) since June, 1947, had exceeded the increase in wholesale prices (25 per cent). Since the price rise, retail stores have reduced their stocks somewhat and are not ordering as far in advance.

The T. Eaton Company reported that it is now ordering only two to three months ahead whereas a year earlier it had been ordering six

months in advance. This, in large part, represents a return to a practice prevailing before the war and the change is partially due to the desire to avoid a loss on its stocks in the face of a sudden decline in prices and partially because delivery on orders can now be obtained more promptly. Statistics show that at the end of July, 1948, inventories of department, mail order and chain stores were only about eight to 10 per cent higher than in July, 1947, whereas prices are up by about 30 per cent, thus indicating a substantial over-all decline in retail shoe stocks. A similar decline in the volume of stocks is apparent at the wholesale level whereas stocks at shoe factories show little change from their level a year earlier.

THE CONSUMER

Consumer Attitudes

None of the stores reported any shift to a lower quality shoe as a result of the recent price rise. The consumer has been gradually shifting to a better quality shoe in recent years and sales of these shoes have been well maintained.

Both Pollock's and Eaton's reported that shoes featuring a large amount of style had been selling much better than the conventional type shoe. They contended that the consumer is more interested in style than price and will buy a shoe featuring what is termed "high" style at a good price in preference to a more conservative shoe at a lower price.

Costs to the Consumer

The annual cost of shoes to a family of five was estimated at \$83.00 by Mr. Kealey, owner of an independent shoe store in Ottawa. The estimate was made up as follows.

TABLE 158

AVERAGE ANNUAL FAMILY EXPENDITURE ON SHOES, 1948

	Number of pairs	Unit Cost (in dollars)	Total (in dollars)
Man	1	13.50	13.50
Woman	3	10.00	30.00
1 School-age Child	4	5.00	20.00
1 Pre-School-age Child	3	3.50	10.50
Baby One Year Old	3	3.00	9.00
Total Cost			83.00

Source: Evidence, Royal Commission on Prices, p. 656.

In addition to this there would be a cost for rubbers and overshoes. It was suggested that \$20.00 might cover this making a total of \$103.00 per year for footwear.

Estimates of total per capita shoe consumption based on production data indicate that in the period from 1939 to 1943 the average Canadian family used somewhat fewer shoes than shown by the above estimate. This is shown by the following table.

TABLE 159

PER CAPITA APPARENT CONSUMPTION OF CIVILIAN LEATHER SHOES, CANADA
1939 to 1943

	1939	1940	1941	1942	1943
Men	1.64	1.60	1.81	1.57	1.62
Boys and Youths	2.65	2.49	2.87	2.51	2.96
Women	2.48	2.38	3.03	2.91	2.94
Misses and Children	1.98	1.86	2.31	2.20	2.23
Babies and Infants	1.10	1.05	1.50	1.58	1.73
Average	1.98	1.90	2.34	2.05	2.27

Source: Dominion Bureau of Statistics, Ottawa.

Total footwear sales through retail outlets in 1941 amounted to about 1.6 per cent of total personal income. At 1939 prices this was equal to about \$7.17 per person.

SUMMARY AND CONCLUSIONS

In explaining the rise in shoe prices that has occurred since August, 1947, a major causal role must be assigned to the sharp rise in leather prices. To the leather footwear manufacturer this rise in leather prices appeared as an increased cost which he was in large measure forced to accept and use in setting his selling price. To a small extent he was able to resist the price increase by shifting to substitute and less expensive materials and by deferring his leather purchases as he allowed his inventory of leather to decline. In setting their new selling prices at this time most footwear manufacturers followed a replacement cost basis increasing their prices almost immediately rather than waiting until they had used up any lower cost inventory which was on hand when price ceilings were removed.

Another major cost in footwear production is wages and these too have contributed to the rise in shoe prices. Wage rates in the industry are now double their 1939 level and since wage costs amount on the average to 25 per cent of the factory selling value of leather footwear these higher wage costs have necessarily been reflected in higher shoe prices. While there appear to have been some gains in productivity—the evidence is not conclusive—these have not been large enough to absorb more than a small part of the wage increase.

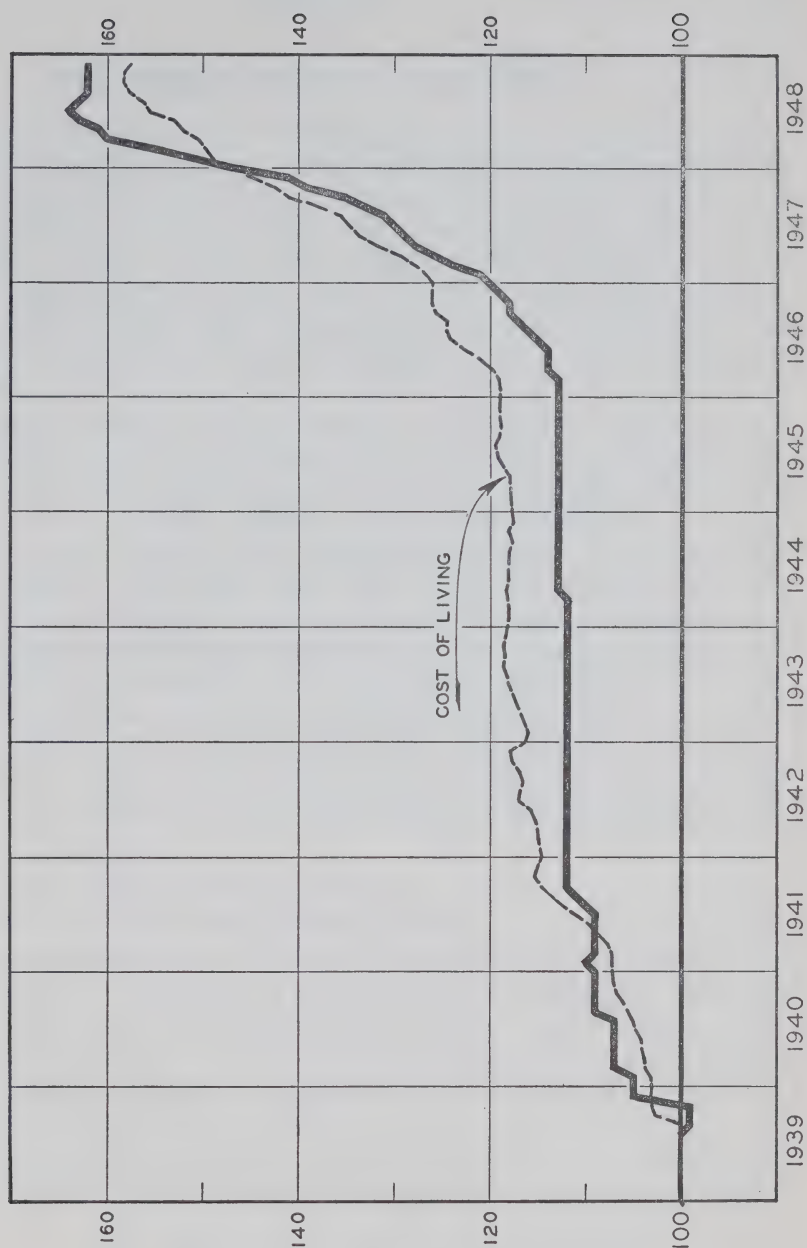
The available evidence indicates that manufacturers' profits have not been an important factor in contributing to higher shoe prices.

It is customary for the retail shoe store to set its selling price by applying a 50 per cent mark-up to the laid-down cost of shoes. Because of this rather inflexible practice the retail price of shoes rises and falls at almost exactly the same rate as the manufacturer's selling price. The increase in the dollar margin which the retailer obtains on each shoe sale in a period of rising shoe prices may or may not be accompanied by higher costs for the retailer. Since the recent rise in shoe prices, retailers are selling fewer shoes but because they are now receiving a larger dollar income on each shoe the amount of profits has not declined proportionately. Though the retailer contends that a 50 per cent mark-up represents the margin required to cover his costs there would seem to be no reason why this percentage could not be reduced if retail prices rise more rapidly than selling costs. The retailers' adherence to a fixed mark-up may reflect a desire to avoid price competition.

After the advance in the manufacturers' price of shoes during October and November, 1947, retailers in general continued to sell the stock of shoes which they had on hand without increasing their prices. The major increase in retail shoe prices did not occur until early in 1948 when the retailer was preparing for the spring season. This resulted in a delay of several months before the rise in leather prices finally reached the public in the form of higher shoe prices. During this period consumers were able to build up their stocks of shoes and thus avoid for a time the price rise.

CHART XVII FOOTWEAR RETAIL PRICE INDEX

(AUGUST 1939 = 100)



Source: Dominion Bureau of Statistics, Ottawa.

10

SECONDARY TEXTILE INDUSTRY

WITH the exception of food, clothing has risen more than any other group in the cost-of-living index, and most of that increase has occurred in the past two years. The clothing index, which stood at 126.3 in 1946 had reached 175.9 by August, 1948, compared with a total index of 157.5. The indexes of some very essential clothing items had risen considerably higher, such as men's shirts at 227.6 and men's overalls at 236.9. While footwear and piece goods are also included in the clothing index, textile garments are the dominant factor with a weighting of 77 per cent.

The secondary textile industry makes a great many household and industrial products besides clothing; but we have concentrated our attention on the clothing field, in view of its very essential nature and its importance in the average person's cost of living budget.

In the Canadian climate, the minimum essentials of clothing are considerably greater than they would be in warmer climates, and the varied needs of our population, such as deep-sea fishermen, lumber-jacks, miners, farmers, factory-workers, railwaymen, office-workers, housewives and children, are all reflected in a highly diversified textile garment industry, which includes both style and utility merchandise.

It would obviously have been impossible to make a definitive study of all commodities in this varied textile garment field, and so we decided to select three representative commodity groups for detailed examination:

- a) Men's fine shirts.
- b) Work clothing, especially overalls.
- c) Women's, misses' and children's wear.

In making this selection, we sought to choose types of garments in common use by large segments of the population. Particular attention was directed throughout our investigation to the lower price ranges, since it was felt that style would be less of a factor and that these ranges would be of greater proportionate importance in the clothing expenditures of the medium and low income groups.

Before reviewing these three commodity groups, it would seem useful to outline the salient features of the textile garment industry as a whole.

THE TEXTILE GARMENT TRADES

The textile garment trades divide into two main categories as to product, garments made from woven fabrics, and knitted goods and hosiery.

The enterprises in the first category, those using woven fabrics, are commonly referred to as "the cutting-up trades". They start their manufacturing process with the woven fabric as their raw material and carry on the various cutting and sewing operations necessary to transform the cloth into the finished garments. The main sub-divisions of the cutting-up trades are:

Men's Factory Clothing, which includes men's and boys' suits, overcoats, topcoats, separate trousers, jackets, work clothing, fine shirts, other furnishings, neckwear, suspenders and garters.

Women's Factory Clothing, which includes women's, misses' and children's coats, suits, dresses, shirts, blouses, underwear, sport clothing and embroidery.

The knit goods industry occupies a border-line position between the primary and secondary textile industry. In the knitting mills, the yarns are very generally transformed into the finished garment in one continuous process, and in consequence, the industry is usually classed with primary textiles. Like the primary industry, also, it generally requires a considerable capital investment in plant and machinery. The industry produces knitted outerwear, underwear and hosiery for men, women and children.

In this study, attention is centred on the cutting-up trades but many general observations have application also to the knit goods industry.

Structure of the Industry

The cutting-up trades are characterized by an exceptionally large number of plants, varying greatly as to size, from small family-owned concerns, sometimes operating in an attic or basement to very large, well-equipped factories turning out several million dollars worth of goods a year.

Men's and women's factory clothing plants constitute approximately half of all Canadian textile establishments, primary and secondary, employ nearly one-third of all textile employees, and produce about one-third of the gross value of production in the Canadian textile industry. The following table indicates the relative importance of the cutting-up trades in the over-all textile picture.

TABLE 160

PRINCIPAL STATISTICS OF MEN'S FACTORY CLOTHING, WOMEN'S FACTORY CLOTHING AND ALL CANADIAN TEXTILES, FOR 1947

	Men's Factory Clothing	Women's Factory Clothing	All Canadian Textiles
Number of Establishments	537 ^a	1,108 ^a	3,082 ^a
Number of Employees	29,586	31,191	175,756
Salaries and Wages (millions of dollars)	52.7	49.8	269.7
Cost of Materials (millions of dollars)	97.6	93.3	571.0
Gross Value of Production (millions of dollars)	186.1	185.5	1,056.9

^a) These data are for 1946.

Source: Dominion Bureau of Statistics, Ottawa.

Since scissors and sewing-machines are the basic equipment for the needle trades, it is possible to set up small plants with very little capital, frequently in rented premises or make-shift quarters. While the larger factories use more expensive machinery, such as cutting machines which can cut hundreds of layers of cloth at one time, the manufacture of factory clothing remains essentially a multiplication of the cutting and sewing processes used by the home sewer.

In certain of the needle trades, such as men's fine clothing and women's coats and dresses, it is common practice for a single skilled operator to make the complete garment. The production line system is widely used in the garment trades in such lines as the less expensive dresses, men's shirts and furnishings, work clothing, etc. When the work is thus "sectionalized", a garment goes to a series of workers, each one of whom performs one process, such as cutting the cloth, stitching the seams, making pockets, attaching buttons, sewing in linings, and so forth. The work is more monotonous, but less skilled labour can be used.

A high proportion of small or medium scale competitive enterprises is characteristic of the cutting-up trades as a whole, and in most segments of the trade the larger firms do not dominate the all-inclusive picture sufficiently to create conditions leading to monopoly. This is particularly true of the women's factory clothing industry. In no sector of this industry do the five largest firms employ more than approximately one-fifth of the total employees, while in women's underwear, the five largest firms employ only 1,000 out of 9,000 persons. In the men's factory clothing industry, the five largest firms account for about one-third of total employment. However, a somewhat greater concentration in large-scale plants occurs in the men's fine shirt industry and in men's furnishings and neckwear, where the five largest firms account for more than half the employment in each of these sectors.

The geographical concentration of the garment trades in Quebec and Ontario is very marked, though not quite so pronounced as in the primary textile field. There are quite a substantial number of garment factories in the Maritimes and the western provinces, but the bulk of the needle trade is clustered in the two central provinces, close to its chief domestic sources of supply. Women's factory clothing shows the greatest degree of concentration, with 91 per cent of the production in Quebec and Ontario. Work clothing, on the other hand, shows perhaps the least concentration of any section of the garment trades. There is a noticeable westward trend in this section of the industry, with Winnipeg now the largest work clothing centre in Canada, exceeding both Montreal and Toronto, though Ontario and Quebec still maintain their lead in total production of work clothing.

The garment trades employ a larger proportion of female labour than any other manufacturing industry, with approximately 65 per cent in the men's clothing industry and 70 per cent in women's clothing.

This preponderance of female workers accounts for the average wage levels being lower in the garment trades than in most other industries. Average hourly earnings in men's garments and furnishings were 72.2 cents in September, 1948, compared to 93.4 cents in all manufacturing. A survey made by the Dominion Bureau of Statistics in November, 1946, shows that men's wages in the garment trades are as good as, or better than, men's wages in manufacturing industries generally; and that the same is true of women's wages in the garment trades compared to women's average wages in manufacturing. However, the men's average hourly earnings in the men's clothing industry were 71 per cent above the women's earnings, and 78 per cent higher in women's clothing, so it can be readily seen how the high proportion of lower female wages reduces the average.

Both wages and labour turnover vary to a marked degree, however, between those sections of the industry in which highly skilled labour is used to make complete garments and those in which less skilled labour is used on a production line system. In men's and women's fine clothing, coats, suits, dresses, etc., where very skilled operators are needed, the wages are among the highest of any industry in Canada, averaging over one dollar per hour, and labour turnover is very small. There has been a serious shortage of labour in these trades, however, due to the difficulties of replacing skilled workers as the older workers retire or the women workers marry. Special efforts have been made to relieve this situation through the rehabilitation program of the Department of Veterans' Affairs and the recent admission of displaced persons to work in the clothing trades. In those divisions of the industry where the work is sectionalized and inexperienced help may be trained fairly quickly to perform one operation, the wage levels are much lower and the turnover considerably higher. Such industries as men's shirts and work clothing, as evidence given at our public hearings showed, have experienced very great difficulties from high labour turnover and the consequent loss of efficiency while training new and inexperienced workers.

In the past, the garment trades were more or less seasonal in nature, but the very favourable conditions in the trade for the past seven or eight years have led to much more steady conditions of work throughout most of the year. In utility merchandise, such as work clothing, there is almost continuous production, but in seasonal and style merchandise, such as men's and women's fine clothing, slack seasons occur between the winter and summer production schedules, though not of as long duration as before the war.

Production

Almost all major articles of men's and women's clothing show an increase in production above pre-war levels, frequently a very substantial increase. Practically all of the war and post-war clothing shortages

have been overcome, despite difficulties in obtaining the desired quantities of certain types of broadwoven fabrics. The chief exception is in the case of men's fine shirts, for which the Dominion Bureau of Statistics reports a reduction from 710,313 dozen in 1939 to 634,484 dozen in 1947, in spite of steady increases in production over the past three years.

The following table gives the production figures for a number of the major items of men's factory clothing for the years 1939, 1946 and 1947.

TABLE 161

PRODUCTION OF MEN'S FACTORY CLOTHING

1939, 1946 and 1947

(thousands of units)

	Unit	1939	1946	1947
Suits	Number	1,301	1,554	1,560
Overcoats and Topcoats	Number	607	876	704
Separate Trousers, fine wool	Number	1,000	1,642	1,740
Jackets, wool	Number	54	293	212
Overalls, all kinds	Dozen	228	332	274 ^a
Work Shirts, cotton	Dozen	324	371	320
Men's Fine Shirts	Dozen	710	596	634
Underwear Shorts, cotton	Dozen	94	143	152
Pyjamas, cotton and flannelette	Dozen	105	111	110

^a) Decrease due to decline in number of firms reporting.

Source: Dominion Bureau of Statistics, Ottawa.

In women's clothing, the greatest change from the pre-war production picture is the tremendous increase in the output of women's suits and blouses, which has more than trebled since 1939.

In the children's wear section of the industry, production increases over pre-war levels are very great, and reflect both the increased birth-rate of the war years and the greater purchasing power of the average family.

The following table gives the production figures for a number of major items of women's and children's clothing for the years 1939, 1945 and 1946.¹

¹Production figures for women's and children's clothing for 1947 are not yet completed, but indications are that they will not differ by more than five per cent from the 1946 figures.

TABLE 162

PRODUCTION OF WOMEN'S AND CHILDREN'S FACTORY CLOTHING

1939, 1945 and 1946

(thousands of units)

	Unit	1939	1945	1946
Women's Clothing				
Coats, all kinds	Number	1,106	1,486	1,455
Suits, all kinds	Number			
Dresses:				
Rayon and Mixtures	Number	5,131	7,546	8,052
Cotton and Linen	Number	4,514	3,957	3,681
Blouses:				
Cotton	Dozen	19	96	85
Rayon and Mixtures	Dozen	83	283	300
Slips, rayon and mixtures	Dozen	233	260	390
Children's Wear				
Coats, all kinds	Number	432	720	796
Dresses, cotton and linen	Number	1,918	3,063	3,130
Blouses, cotton	Dozen	not collected	59	75

Source: Dominion Bureau of Statistics, Ottawa.

Sources of Supply

Two factors of major importance in evaluating the present price and supply situation in the Canadian garment trades are the degree of their dependence on:

- a) import sources for a substantial portion of their cotton and woollen fabric requirements.
- b) a small number of very large domestic producers for the bulk of their lower-priced cotton fabrics.

As shown in the chapter on the primary textile industry, Canada was dependent on import sources in 1947 for approximately 52 per cent of cotton fabrics, and 34 per cent of wool fabrics.¹ For rayon fabrics, Canada is more self-sufficient, importing only some 20 per cent. Inasmuch as the average price of imports of cotton fabrics had risen from 1939 to 1947 by 155 per cent, of rayon fabrics by 145 per cent and of wool fabrics by 122 per cent, this dependence of the Canadian garment trades on import sources becomes an important factor in the costs of production, as well as in the general supply situation.

The dependence of the garment trades on a few large domestic mills for the bulk of their supplies of low and medium priced cotton fabrics has been a factor of considerable importance in limiting competitive conditions in the industry. As pointed out in the primary textile chapter, the domestic production of cotton broadwoven fabrics has steadily

¹See Chapter 6, The Primary Textile Industry.

declined from a wartime peak of 369 million yards in 1942 to 265 million yards in 1947, an amount slightly below the 1939 production level, this at a time when purchasing power and consumer demand are much greater than before the war. With garment manufacturers demanding greater yardages, the larger mills have retained an informal system of allocations to their customers, more or less along the lines established under the Wartime Prices and Trade Board during the period of control. Although these allocations may be justified on the grounds of continued shortages, they seriously limit the present possibilities of expansion of the secondary industry in the field of low and medium-priced cotton garments and may exclude the entry of new businesses in this field, since new factories would have little chance of obtaining quotas of the necessary fabrics from domestic mills. There was some indication, also, during our investigation of the men's shirt industry, that as allocations grow more flexible there is a tendency on the part of certain primary mills to direct a greater proportion of their production to the larger manufacturers and a correspondingly lower proportion to the smaller factories.

The most serious supply situation exists in this field of low and medium-priced cotton fabrics, where there is a threefold problem of procurement. First is the above-mentioned decline in domestic production. In the second place, our imports of cotton fabrics from the United States have been cut to about one-third of previous supplies by import control restrictions. Finally, the supplies available from the United Kingdom are higher in price than comparable fabrics produced in either Canada or the United States.

For the highest-priced fabrics made from the finer cotton yarns, which are not produced at all in our domestic mills, Canada before the war was almost entirely dependent on the United Kingdom.

During the war and immediately after, substitute materials were obtained from the United States in the absence of British supplies. At present, these finer fabrics constitute a very large proportion of our imports from the United Kingdom since, even at greatly increased prices, they can be used in garments for the higher-priced or luxury trade, and the higher costs passed on to the consumer. However, present high prices in the British market are acting as a serious deterrent to Canadian purchases of the lower-count fabrics, since garments made from these types of United Kingdom cloth must compete with garments made from comparable Canadian and United States cloth at much lower prices. Under present demand conditions, manufacturers are finding that they frequently have to absorb the difference between the Canadian and United Kingdom price in these cases, and are accordingly very reluctant to supplement their supplies from this source except as a last resort. The recent removal of the tariff on cotton fabrics coming from the United Kingdom should help this situation somewhat; but it is disturbing to note that in the first nine months of 1948 cotton fabric imports from the United Kingdom were only one-fifth of their target for the year.

It should, perhaps, be pointed out that small garment manufacturing firms, which are not equipped to weather the great uncertainties of import trade nor to build trade connections in these times, are almost entirely dependent for their supplies on domestic producers or Canadian wholesalers marketing both domestic and imported fabrics.

PRICING AND SELLING POLICIES

Competitive Conditions

The garment trades, which were highly competitive before the war, underwent a drastic change during the period of wartime controls when competition virtually vanished, and are only now beginning to return to what might be considered normal competitive conditions.

Prior to the war, the garment trades commonly resorted to all sorts of price-cutting devices in the race to attract buyers. Sometimes this competition took the form of direct efforts to lower prices, either by cutting costs or reducing profit margins and mark-ups; sometimes, instead of reducing the price, improvements in the quality of the garment were used as the competitive element. At the retail level, the traditional mark-up pattern was balanced to a large extent by mark-downs, so that the average return to the retailer would be considerably less than indicated by the original mark-up prices. Bargain sales of all kinds were a common feature of clothing or department stores. Many of these were clearance sales, involving genuine mark-downs of standard merchandise. Many others, however, involved "special sale merchandise", often manufactured to slightly substandard specifications in order to meet the designated sale price. Another common practice was to use certain clothing items as "loss leaders" in order to attract customers into the store.

The war changed the picture completely. Wartime shortages and high consumer demand, combined with price control, the freezing of styles and the system of quotas developed under a policy of equitable distribution set up by the Wartime Prices and Trade Board, reduced competition to the vanishing point.¹ At the same time, the garment industry enjoyed a period of unparalleled prosperity, with a high volume of sales for both military and civilian purposes, an assured market for all they could produce and little or no necessity for mark-downs. Clothing prices had risen some 20 per cent in the first two years of the war, so that the over-all price ceiling imposed in December, 1941, did not find the industry in too uncomfortable a position. A certain amount of "squeeze" on manufacturers' margins was largely compensated for by simplification measures, eliminating "frills", freezing styles and limiting dimensions, which reduced labour and material costs and lessened the need for high inventories. The retail section of the garment trade shared the high level of wartime prosperity. As shortages developed and consumer demand increased, merchandise practically walked off the

¹See Chapter 3, Vol. II, Price Control and Rationing.

store shelves and mark-downs and "sales" virtually disappeared. Restrictions on packaging, delivery and credit services also reduced the retailer's overhead. The representative of the Hudson's Bay Company, testifying during the hearings on the work clothing industry, described 1942 to 1947 as "the golden years".¹ The financial statements of companies in the three commodity fields under special investigation would seem to indicate that nobody in the clothing trades suffered during the war years.

Now that the wartime controls on the price, production and distribution of clothing have all been removed (the final controls were removed in September, 1947), the garment trades are gradually returning to more competitive conditions. However, no real return to competitive conditions can be said to have taken place as yet in such lines as men's fine shirts or overalls, so long as the difficulty in obtaining adequate supplies of lower-priced shirting materials and denims still limits the supply. Furthermore, it is a question of some importance whether there is not now a tendency in the garment trades to attempt to continue wartime patterns of pricing which gave assured margins and mark-ups but which are not in keeping with a return to a freely competitive economy.²

Before considering present pricing policies in more detail, it would be well to review the various selling arrangements commonly used by the garment trades.

Selling Arrangements

The two methods by which the garment manufacturer gets his goods to the public are either by direct sale to retailers or by selling to wholesalers and jobbers, who, in turn, sell to the retail trade. Direct sale to retailers is the dominant pattern in the style clothing field. Most ready-to-wear coats, suits, and dresses are sold in this manner, as are also style items of men's furnishings, such as nationally advertised brand-line shirts. A substantial number of overall and work shirt manufacturers also do a large proportion of their business as direct sales to retailers. Standard merchandise, such as underwear, lingerie, house dresses and similar lines, are more commonly sold through wholesalers, who can perform a useful service to countless small retailers by assembling a great variety of items from many manufacturers, not garments only, but related items such as oilcloth, diaper cloth, knitting yarns, etc. Substantial quantities of work clothing and men's shirts are also sold in this way.

Manufacturers who sell direct to retailers customarily have their own sales force, who usually work on a commission basis. Their warehousing and administrative costs, as well as selling costs, are large. On the other hand, manufacturers who sell only to a few large outlets, such as a few big wholesalers, mail order houses, chain stores and department stores, need a very small sales force and can greatly reduce expenses for ware-

¹Evidence, Royal Commission on Prices, p. 1176.

²This tendency is discussed at greater length in Chapter 11, Vol. II, Restrictive Business Practices.

housing, shipping staff, etc. As was clearly brought out in the evidence such as Yamaska Garments Limited, some manufacturers can take a much lower gross margin of profit than those selling direct to retailers and still come out with as good a net profit, due to their lower expenses. Midway between these two positions comes the manufacturer who sells to a large number of wholesalers and jobbers; his selling and warehousing expenses will be somewhat less than if he sold direct to retailers but considerably more than if he dealt with only a few big outlets.

The effect on the retail price of garments going through wholesale channels presents a very mixed picture, since some manufacturers have a standard price to all buyers, some have different prices for wholesalers and retailers, and some offer special discounts to large accounts.

PRICING PROCEDURES

Manufacturer's Selling Price

In determining his selling price, the garment manufacturer commonly goes through a complicated process of mental gymnastics in which he attempts to balance his costs on the one hand and probable retail price on the other hand and come out with a satisfactory margin for himself, while at the same time leaving sufficient leeway for the wholesaler and retailer to obtain their customary mark-ups. Basically, cost is the prime factor in determining the approximate level of the manufacturer's selling price. His first consideration, if he is to stay in business at all, must be to cover his actual cost of raw materials, labour and overhead, adding a sufficient amount of gross margin to take care of his probable warehousing, selling, administrative and financial expenses and to make provision for inventory reserves and taxes on income. But in large segments of the garment trades, the practice of working to a retail price is the prevalent pattern and determines in the final analysis just how much margin the manufacturer will take. Sometimes a retailer may go to a manufacturer and ask that a garment be produced to sell at a given retail price, in which case considerable bargaining may take place before costs, margins and mark-ups are finally tailored to fit under the retail price to which he is working. But even without such specific requests, manufacturers tend to have a retail price in mind when establishing their own selling prices in order to fit their product into accepted price ranges. As the representative of one of the large shirt manufacturing companies said at the hearings; "you just do not go out and buy cloth and make a shirt haphazardly and wonder what it is going to sell for. . . you work to those generally accepted prices to the public and you just do not hit haphazard figures in between".¹

Price Ranges

This matter of price ranges is not of great moment in the case of lower-priced goods, where odd amounts such as 59 cents, \$1.19, \$1.39 and

¹Evidence, Royal Commission on Prices, p. 843.

so forth are common. As goods go higher in the price scale, however, they begin to fall into definite price categories at jumps of 50 cents or a dollar, while the higher-priced garments, such as suits and coats, commonly jump by as much as five and 10 dollars, (psychological prices, such as \$1.98, \$4.95, etc. are considered to be the equivalent of the even figures, \$2.00, \$5.00, etc.)

These price ranges have been a convenient and accepted practice in the trade for many years, but in a time of rapidly rising prices, they often work to the disadvantage of the consumer, since an increase of two or three cents in the cost of production may carry the garment into a different price category, with an automatic jump of 50 cents, a dollar or more in the retail price. It would seem to be definitely in the interests of the consumer to adhere less rigidly to a fixed pattern of prices, which could more closely parallel actual increases in cost.

Mark-ups

Retail and wholesale mark-ups in the garment trades are commonly computed as a percentage of selling price. They vary considerably for different types of garments, with mark-ups generally higher for style merchandise than on standard utility items. During the period of war-time controls, the Wartime Prices and Trade Board issued schedules of maximum retail and wholesale mark-ups for practically all types of clothing. These mark-ups were based on traditional practice in the trade; but in a period when demand far outran the supply, there was an inevitable tendency for these maximum mark-ups to become the minimum or standard mark-ups as well. Since controls were lifted, there has been a marked tendency for the habits of mind formed during the control years to continue and for the fixed percentage retail mark-up to become a "law of the Medes and Persians" in the garment trades. Again and again, during our hearings, it was clearly indicated that the garment manufacturers accept without question the need for a certain fixed percentage mark-up for the retailer, even when their own profit margins vary considerably. This point of view was most evident in those fields where the dominant pricing policy is one of working to a retail price, since in these cases the manufacturer works back to his own profit margin after allowing a standard mark-up for the retailer, or retailer and wholesaler, as the case may be. In a number of instances, garment manufacturers stated definitely that they would prefer to reduce their own profit margin slightly rather than to raise the price to the retailer.

The chief reason given by the manufacturers for this devotion to a fixed percentage retail mark-up was that it represented the amount generally found necessary over a period of years for a retailer to carry on his business on a financially sound basis, and they wanted to see their customers stay in business and able to buy their goods. No account seemed to be taken of the fact that, in many cases, the traditional

mark-ups had originally been set high enough to take care of a considerable proportion of subsequent mark-downs, and that, in a period when the dollar volume of sales was high and mark-downs negligible, a somewhat lower mark-up might be adequate to give the retailer a reasonable profit margin. In this connection, it is interesting to note that the evidence of several retailers of men's shirts and overalls indicated that they felt they could do business very nicely on a lower percentage mark-up than the "traditional" mark-up the manufacturers appeared so willing to accord them.

Resale Price Maintenance

From the practice of working to a retail price with fixed allowances for wholesale and retail percentage mark-ups, it is an easy step to the adoption of a system of resale price maintenance, under which the manufacturer sets the retail or wholesale price. This practice of resale price maintenance has grown considerably within certain segments of the garment trades. For instance, in men's shirts, two of the largest brand name manufacturers John Forsyth Ltd. and Tooke Bros., Ltd., have made it a practice to affix to their shirts price tags giving the suggested retail price. The other two largest brand name manufacturers disclaimed in evidence even suggesting to retailers the price at which their shirts should sell. However, as the representatives of all four companies agreed that the retail mark-up should be in the vicinity of 37½ per cent of selling price and all were in fact offering shirts at \$2.37 or \$2.38 which were selling at retail for \$4.00, the result was very much the same.

The important question, however, is whether the retail price, as set or suggested by a manufacturer, is actually binding on the retailer and has the effect of preventing any reductions in price which the retailer might otherwise make in the course of normal competition. The disadvantages to the consumer are obvious if the more efficient retailers are prevented from passing on their savings in the form of lower prices, while the less efficient retailer is protected under the "umbrella" of a fixed retail price, more or less guaranteeing him a high margin. When questioned on this point, the shirt manufacturers all denied taking any steps to force a retailer to maintain a certain retail price, such as withholding further supplies from a retailer who reduced his price below that level. On the other hand, they all admitted that they would feel concern if a retailer dropped his price "all out of proportion" or made "a football" of the product. The garment trades, manufacturers and merchants alike, have memories of disastrous results from price battles in the past; and quite understandably want to avoid a return to what might be termed "unfair" price competition, such as actually selling below cost in order to take trade away from a competitor. It would seem, however, that the industry might achieve its legitimate aims in this regard without stifling normal price competition at the retail level.

The danger of a system of resale price maintenance is greater in a section of the garment industry such as men's shirts, where the five largest firms occupy such a dominant position and where the adoption of a policy of resale price maintenance by even three or four of them would remove all price competition at the dealer level in a very large segment of the trade.

Our hearings on the work clothing industry, on the other hand, revealed little or no indication of attempts to establish resale price maintenance for overalls. The representative of one work clothing firm said, "if anything our interest, when it comes to overalls, is to see that the retailer sells it as low as he can, feeling that in that way he is going to sell more of our products. There is no incentive for us to ask him to maintain the retail selling price."¹ However, this same firm manufactures other garments such as children's items, on which they have set retail prices. The explanation given for setting the price on children's items, but not on overalls, was that it was necessary as part of their national advertising program on the children's wear.

Freight Payment

Policies as to payment of freight vary considerably in the garment trades, but the location of competitors is the chief factor determining whether freight will or will not be prepaid. The shirt manufacturers do not as a rule pay freight, but quote f.o.b. factory prices to customers from coast to coast. Work clothing manufacturers, on the other hand, frequently pay all or part of the freight to certain parts of the country. Thus, Ontario manufacturers may prepay freight west of Port Arthur or east of the Quebec border, in order to meet the competition of the western and Montreal manufacturers. Winnipeg manufacturers, however, usually concentrate on the western trade and may adopt a policy of all shipments f.o.b. Winnipeg, or may allow the difference in freight from Toronto on sales to Fort William and Port Arthur.

When freight is prepaid by the manufacturer, it is included under overhead and thus adds a fractional amount to the selling price everywhere, but tends toward more uniform retail prices across Canada. When the price is f.o.b. factory, the effect in the more distant sections of the country is either to increase the price to the consumer or, if the retailer absorbs the freight, to give the retailer a lower mark-up.

FACTORS IN PRICE CHANGES

The rapid rise of clothing prices during the past two years may be attributed primarily to increased costs of production, both for materials and labour; but the percentage system of margins and mark-ups, which

¹Evidence, Royal Commission on Prices, p. 1156.

is in general use by the garment trades, has pyramided these initial cost increases throughout the price structure. Only a small proportion of the clothing price increases are due to manufacturers or distributors actually taking larger percentage margins or mark-ups than formerly, but the same percentage taken on a basis of increased costs has given a larger dollar and cents margin at every stage of distribution.

The greatly increased cost of materials affects all sections of the garment industry, and is particularly important in view of the high proportion of production costs which go for materials. The relation of material costs to labour costs and to the manufacturer's margin for other expenses, profits and depreciation may be seen from Table 163 for the men's factory clothing and women's factory clothing industries.

TABLE 163
COSTS IN MEN'S AND WOMEN'S FACTORY CLOTHING INDUSTRIES,
CANADA, 1947

(thousands of dollars)

	Men's Factory Clothing Industry		Women's Factory Clothing Industry	
	Amount	Per Cent of Total	Amount	Per Cent of Total
Salaries and Wages	52,739	29.9	49,785	26.8
Fuel and Electricity	590	0.3	557	0.3
Cost of Materials	97,656	55.5	93,340	50.3
Profits, Depreciation and Other Expenses	25,121	14.3	41,815	22.6
Gross Value of Production	176,106	100.0	185,497	100.0

Source: Dominion Bureau of Statistics, Ottawa.

The price of fabrics, both domestic and imported, has risen very substantially above pre-war levels, with the greatest increase in cotton fabrics, followed by wool and rayon. Domestic fabric prices were held fairly stable during the war years by the use of extensive subsidies, but as subsidies were reduced and finally removed during 1946 and 1947, the prices of domestic fabrics rose accordingly. Import prices are particularly significant in the case of cotton fabrics, since the proportion of imports to the total Canadian supply rose from about 30 per cent in 1939 to over half the supply in 1947. During the same period, the unit price of cotton fabric imports rose from 56 cents a pound in 1939 to \$1.43 a pound in 1947, while certain types of cotton fabrics rose much more than the general average.

The cost of findings, such as trimmings, buttons, thread and boxes, has increased a great deal since 1939, the cost of thread alone having gone up 200 per cent.

Labour costs have risen in the garment trades, both as a result of direct wage increases and of higher turnover and lessened efficiency. Some firms have been able to counterbalance these increases to some extent by increasing the productivity of labour with improved machinery and methods.

When labour turnover is high, there has been a tremendous increase in what are known as "non-productive" labour costs, that is, the amount necessary to make up wages to the minimum scale for new and inexperienced help who do not make enough on piece rates. Another type of "non-productive" labour cost occurs when there is a shortage of help and it becomes necessary to make up average earnings for skilled workers who have to be transferred to less familiar operations.

In general, factory labour costs have risen somewhat less than the cost of materials, and in any event account for only a small part of the increase in retail selling prices. The evidence on the women's and children's clothing industry showed that the increase in factory labour costs accounted for only 10 to 20 per cent of the increase in retail selling prices for a wide assortment of essential garments.

Distribution costs have also increased at every level from manufacturer to retailer during the past 10 years, with higher wages and salaries, increased rents, higher freight rates and so forth.

The effect on price changes of the percentage system of margins and mark-ups can best be seen in the case of specific commodities and will be dealt with in some detail in the following sections on men's fine shirts, work clothing, and women's and children's clothing.

MEN'S FINE SHIRTS

Men's fine shirts, as distinguished from other types of shirts such as work shirts and sport shirts, are generally made from the finer count cotton woven fabrics. While the farmer or factory worker may wear such a shirt only for Sunday or dress occasions, it is regulation attire for the man engaged in business or the professions. Variations occur in colour, styling and quality of the materials used, but by and large men's shirts are a relatively standard product. The chief manufacturers of shirts are making many of the same models to almost exactly the same specifications as to size, pattern and finish as they did in pre-war days. Shirt manufacturers testifying at our hearings generally stated that the workmanship on the lower-priced and higher-priced shirts was essentially the same.

The chief difference between the lower and higher-priced shirts lies in the materials used. The lower-priced are usually made from the lower count fabrics from Canadian and United States mills, while the higher-priced shirts depend almost entirely on imports of the finer count

weaves from the United Kingdom. In the medium-priced range, materials are used from both domestic and import sources. Print materials are frequently used in the low-priced shirts, while shirts made from woven-pattern fabrics usually command a somewhat higher price. Other differences lie in the use of sanforized or unsanforized materials; in the type of collar, whether fused or not, attached or unattached; and to some extent, in the amount of yardage used, (this varies exceedingly little among the well-known brands, which generally use $30\frac{1}{2}$ to $31\frac{1}{2}$ yards per dozen, but some of the cheaper shirts are cut from very much skimpier patterns).

The same firms which manufacture men's shirts frequently produce also men's pyjamas, shorts, neckwear, boys' shirts and women's shirts.

There are some 50 firms in Canada whose chief product is men's fine shirts, and of these, the five largest account for one-half of the gross value of production and employment in the industry. Of these five, four are brand name manufacturers: Cluett-Peabody & Co. of Canada, Limited; John Forsyth Limited; B. V. D. Company Limited and Tooke Brothers Limited. All of these sell direct to the retail trade. The fifth, Yamaska Garments Limited, manufactures a somewhat less expensive shirt which is sold in volume to the jobbing trade and large retail outlets such as department stores. Cluett-Peabody and B. V. D. are subsidiaries of United States companies, from which they derive the benefits of large scale advertising programs. The shirt manufacturing industry is concentrated almost entirely in Ontario and Quebec, and prices are usually quoted f.o.b. factory.

The shirt industry is an outstanding example of the difficulty of obtaining adequate supplies of the low and medium-priced cotton fabrics. Plentiful supplies of the higher-priced shirting materials are available in the United Kingdom to go into shirts retailing at \$5.50 and up. Imports from the United States are sharply limited by dollar quotas, and while subsidiaries of United States companies seem to be able to secure some of the lower-priced materials to go into shirts in the \$4.00 category, other companies claimed that they could not obtain any lower-priced shirting fabrics and that imports from the United States only helped out on production of shirts in the \$6.00 and up price ranges. For shirting materials to go into the low and medium-priced shirts, that is \$5.00 and under, the Canadian shirt manufacturers are heavily dependent on three Canadian primary mills, Montreal Cottons Limited, Wabasso Cotton Company Limited and Dominion Textile Company Limited. Evidence by representatives of these companies indicated that, while Montreal Cottons had greatly increased its production of shirting materials above pre-war levels, the other two companies showed a substantial decrease in the quantities of shirting materials supplied by them to the shirting trade. All of this domestic production is still under the informal system of allocation, previously noted.

The pattern of working to a retail price in determining the manufacturer's selling price is general throughout the trade. Although representatives of the four large brand name shirt manufacturers and one men's furnishing store said that they considered the retailer needed a mark-up on shirts of 35 to 38 per cent, the representatives of smaller manufacturers, wholesalers and department stores indicated that, in their opinion, 33 to 35 per cent would constitute a "reasonable and necessary" mark-up.

The question of resale price maintenance assumes special importance in the shirt industry, in view of the great percentage of the industry's total sales controlled by a few large firms. It has already been pointed out that two of the brand name manufacturers, Forsyth and Tooke, use price tags indicating the retail price of their shirts; and representatives of retail stores said that the travellers for some other brand name firms "suggested" the price at which their shirts should sell. The retailers indicated that they usually sold the shirts of these manufacturers at the suggested prices, even when their own normal mark-up was 33 to 35 per cent, rather than the 36 to 38 per cent allowed by the manufacturer in the "suggested price".

EVALUATION OF FACTORS IN PRICE CHANGES

The retail price of men's shirts has more than doubled since 1939. The pre-war \$2.00 shirt, which was the heavy volume line, has moved up to the \$4.00 level. There has also been an upward movement of the very cheap lines, pre-war \$1.29 and \$1.50, into the \$2.75—\$3.25 and the \$3.75 brackets respectively.

General Supply and Demand Factors

It has already been noted that men's fine shirts are the only major item of men's clothing in which production is still below pre-war levels. This, in itself, has a tendency to lessen price competition and keep the price of shirts at a high level.

In addition to the increase in the unit price of shirts, there has been a pronounced trend toward the production of a larger proportion of higher-priced shirts. The performance of the larger companies varies widely in this regard. Both Cluett-Peabody and B. V. D. have succeeded in increasing the production of their lower-priced shirts (\$4.00 and under) above pre-war levels; but Tooke and Forsyth have greatly decreased their lower-priced production. Only B. V. D. has maintained approximately the same proportion of lower and higher priced shirts from pre-war to the present, the other three all having increased their proportionate production of medium and high-priced shirts very sub-

stantially. Figures are available from these four companies which indicate the trend, and may be found in the following table.

TABLE 164
PRODUCTION OF LOWER-AND HIGHER-PRICED MEN'S SHIRTS,
FOUR CANADIAN SHIRT MANUFACTURERS

1939, 1947, 1948

(dozen of shirts)

	1939	1947	1948
Cluett-Peabody of Canada Co. Ltd.			
Low-priced shirts	59,066	67,574	73,535
Medium and high-priced shirts	3,770	26,279	21,965
B.V.D. Co. Ltd.			
Low-priced shirts	29,420	38,263	35,728
Medium and high-priced shirts	5,562	9,324	7,644
Tooke Bros., Ltd.			
Low-priced shirts	38,965 ^a	21,211	20,316
Medium and high-priced shirts	2,125 ^a	23,434	21,808
John Forsyth, Ltd.			
Low-priced shirts	68,456	32,619	23,977
Medium and high-priced shirts	7,815	30,954	25,486

^a) 1940

Source: Evidence, Royal Commission on Prices, pp. 816, 832, 857, 879.

Yamaska's representatives said that they had reduced their production of lower-priced shirts by 35 per cent since 1939 and had shifted their production of a "cheap, skimpy shirt" to a shirt using more and better material, which was still, however, within what would be considered the lower-price range.

This trend toward a greater production of medium and higher priced shirts is due both to the actual need to supplement domestic supplies of lower-priced fabrics with more expensive imports and to the not unnatural tendency to move into the production of lines on which there is a better profit. Under the percentage mark-up system, both manufacturer and retailer make more money out of shirts made from higher-priced material. It should be pointed out that, while the shirt manufacturers claimed they were making every effort to secure more low-priced shirting materials, the representative of Montreal Cottons Limited reported that they were receiving many requests from shirt manufacturers for better quality broadcloth.

Present prices of shirts appear to be keeping annual demand below a normal replacement level, but there is little indication of effective buyer

resistance to prices much below the \$6.00 level. There is considerable difficulty in selling shirts in the \$7.50 to \$9.00 category, but a ready demand for the \$4.00 and \$5.00 shirt, with indications of some public preference for a woven-pattern shirt at \$5.00 over a print shirt at \$4.00. A growing buyer resistance to the higher-priced shirts and a demand for cheaper shirts was seen by representatives of wholesalers and department stores, but it was generally agreed that there was a definite consumer demand for quality, and that what was wanted was the same quality at a lower price.

Cost of Production

The most important item of cost is the shirting fabric itself. All types, both domestic and imported, have more than doubled in price from 1939 to 1948. One of the most common domestic broadcloths used in the medium-priced shirts, Montreal Cottons' JC41, has gone up from 13¾ cents a yard in 1939 to 37½ cents a yard in 1948, an increase of 172 per cent. One of the imported United Kingdom fabrics, which sold for 27 cents a yard in 1939, has gone up to 94 cents in 1948, an increase of 248 per cent. Manufacturers also reported that an increase of flaws in piece goods has necessitated the use of an additional half yard per dozen shirts.

The price of findings has risen by varying amounts. One company reported an increase of 134 per cent in the cost of interliners, and of 78 to 94 per cent in the cost of the fusing lining for collars. Another company estimated the total increased cost of findings in one of their best-selling shirts at 109 per cent.

The increase in labour costs varies from company to company, and for different types of shirt. The T. Eaton Company, Ltd. which operates a factory making men's shirts, gave the increase in labour costs from 1939 to 1948 on a shirt made of JC41 material as 117 per cent; while on a shirt made from imported materials, they had risen only 76 per cent. Higher labour cost in the large cities compared to the smaller places explains a good deal of the variation in manufacturers' factory-door costs.

On the whole, material costs have risen more than labour costs and therefore account for a larger percentage of total costs in 1948 than before the war. Manufacturers' total factory-door costs, which include materials, labour and factory overhead, have risen steadily over the 10 year period and are now just about double the 1939 costs.

Unit Costs and Selling Prices

Two different pictures as to the relation of unit costs and selling prices are presented in the case of shirts now retailing at \$4.00 and in the case of shirts selling below \$4.00. These represent the volume lines of shirts at the present time.

It will be seen from Table 165 that, in the case of the \$4.00 shirts, retail prices, manufacturers' selling prices and factory-door costs have

TABLE 165
ANALYSIS OF PRICES OF MEN'S FINE SHIRTS
(in dollars)

	Retail ^a Selling Price	Manufacturers' Selling Price	Factory-Door Cost	Manufacturers' Margin		Retail Mark-up ^b	
	Amount	Amount	Amount	Amount	Per Cent of Manufacturers' Selling Price	Amount	Per Cent of Retail Selling Price
Shirts Selling at \$4.00, 10 models							
September 1939	2.00	1.18	.83	.35	29.6	.82	41
September 1942	2.25	1.35	.92	.43	31.8	.90	40
September 1946	2.50	1.47	1.11	.36	24.4	1.03	41
September 1947	3.05	1.86	1.40	.46	24.7	1.19	39
1948, latest price	4.00	2.38	1.70	.68	28.5	1.62	40.5
Percentage 1948 to 1939	200	201	204.8	194.3		197.6	
Shirts Selling under \$4.00, 5 models							
September 1939	1.53	.99	.81	.18	18.2	.54	35.3
September 1942	1.79	1.12	.87	.25	22.3	.67	37.4
September 1946	2.07	1.28	1.04	.24	18.8	.79	38.2
September 1947	2.77	1.66	1.35	.31	18.8	1.11	40.1
1948, latest price	3.40	2.01	1.61	.40	19.9	1.39	40.9
Percentage 1948 to 1939	222	203	198	222		257.4	

a) As estimated by manufacturers of these models.

b) Retail percentage mark-ups given here include sales tax and transportation.

Source: Evidence, Royal Commission on Prices, pp. 812-13, 833, 854, 875, 894-95.

risen in approximately the same proportion (100, 101.7 and 104.8 per cent, respectively). On the other hand, in the case of under \$4.00 shirts, the retail selling prices have increased by 122 per cent, compared to an increase in manufacturer's selling price of 103 per cent and in factory costs of 98.8 per cent.

Manufacturers' Margins

On a dollar and cent basis, the shirt manufacturers' margins have increased very greatly since before the war.¹ The average margin between factory-door cost and manufacturers' selling price for shirts now retailing at \$4.00 has risen from 35 cents in 1939 to 68 cents in 1948, an increase of 33 cents or 94.3 per cent. For shirts selling under \$4.00, it has risen from 18 cents in 1939 to 40 cents in 1948, an increase of 22 cents or 122.2 per cent. However, when taken as a percentage of his selling price, the manufacturer's margin has changed little since before the war, having decreased from 29.6 per cent to 28.5 per cent on the \$4.00 shirts and increased from 18.2 per cent to 19.9 per cent on the shirts selling under \$4.00. It should be noted that present margins, whether taken in dollar value or as a percentage, are considerably greater on the \$4.00 shirts than on the lower price ranges.

Average margins do not, however, give at all a complete picture of the complicated variations in costs, margins and selling prices. The variations in costs are much greater than in selling prices, and the manufacturers' margin fluctuates accordingly. For the 10 shirt models in the \$4.00 category, the present variations are as follows:

Factory-door cost	\$1.59-\$1.84
Company selling price	\$2.37-\$2.38
Estimated retail price	\$3.95-\$4.00

The company with the \$1.59 factory-door cost, B.V.D., is getting a margin of 33.4 per cent on its selling price, while the company with the \$1.84 cost, Tooke Bros., is getting a margin of 22.7 per cent. It will be seen that the lower costs of the B.V.D. Company are not passed on to the consumer in a lower price, though other companies with higher costs than \$1.59 are putting shirts on the markets to retail at \$3.75, for example,

Cluett-Peabody, Model No. 4 Standish

Factory-door cost	\$1.62
Company's selling price	2.17
Estimated retail price	3.75
Manufacturer's margin	25.3 per cent.

Tooke Bros. Model No. 12M

Factory-door cost	\$1.79
Company's selling price	2.21
Estimated retail price	3.75
Manufacturer's margin	19 per cent.

¹See Table 165.

In border-line cases, a difference of one or two cents in factory costs may easily make a difference of 25 cents to the consumer, according to the retail price category into which the shirt is placed. For instance, Cluett-Peabody's Standish Prints, which have a factory-door cost of \$1.64, only two cents more than the woven Model No. 4 Standish, have a manufacturer's selling price of \$2.38 and a retail price of \$4.00.

While considerable fluctuations occur in the percentage margins on individual shirt models from year to year, most of those studied in our investigations showed only slight percentage increases or decreases over pre-war.

One model of Yamaska Garments Ltd. was, however, an exception to this general rule, the manufacturer's margin having risen from 7.3 per cent in 1939 to 15.6 per cent in 1948. Companies like Yamaska, which do the bulk of their selling to a few big outlets, normally have very much lower gross margins than companies selling direct to the retail trade. Changes in percentage margins on individual items need to be studied in conjunction with the gross margin shown by the manufacturer on his over-all operations, in which the variations on different items tend to cancel one another out and the general trend is revealed. In the case of this company, the gross margin on over-all operations follows almost exactly the same pattern as the individual item, having risen from seven per cent in 1939 to 15.2 per cent in 1948.

Wholesale Mark-up

Only one wholesale firm presented testimony during our hearings on the shirt industry, but its evidence indicated that the average wholesale mark-up on men's shirts was about 20 per cent of selling price, and that, if anything, the wholesaler's margin had tended to go down somewhat as a percentage of his selling price since 1939, while the retail margin had risen.

Retail Mark-up

The average retail mark-up on shirts now selling at \$4.00 has risen from 82 cents in 1939 to \$1.62 in 1948, an increase of 97.6 per cent. On shirts selling under \$4.00, the increase has been even greater, having risen from 54 cents in 1939 to \$1.39 in 1948, or an increase of 157.4 per cent.¹

As a percentage the retail mark-up on the \$4.00 shirts has remained fairly constant from 1939 to the present at approximately 39 to 41 per cent of selling price including sales tax and transportation, but on the lower-priced shirts, the retail mark-up has been moving steadily up from 35.3 per cent in 1939 to 40.9 per cent in 1948. In other words, the lower-priced shirts, which customarily took a lower percentage mark-up than the medium and higher-priced shirts, are now commanding approximately the same percentage mark-up.

¹See Table 165

The significance of the retail mark-up as a factor in the price increases for men's shirts may be seen from the following table.

TABLE 166

COSTS, MARGINS AND MARK-UPS AS FACTORS IN PRICE
INCREASES OF MEN'S SHIRTS

(in dollars)

	\$4.00 shirts			Shirts under \$4.00		
	1939	1948	Increase 1939-1948	1939	1948	Increase 1939-1948
Factory-door Cost	.83	1.70	.87	.81	1.61	.80
Manufacturers' Margin	.35	.68	.33	.18	.40	.22
Retail Mark-up	.82	1.62	.80	.54	1.39	.85
Retail Price	2.00	4.00	2.00	1.53	3.40	1.87

Source: Evidence, Royal Commission on Prices, pp. 812-13, 833, 854, 894-95.

Total Operations

The relation of profits to the rise in prices in the shirt industry may best be seen from the over-all operations of shirt manufacturers, wholesalers and retailers, with especial reference to operating income and net profit as a percentage of sales.

Manufacturers

The information relating to the composite operations of the five largest manufacturers of men's fine shirts has been summarized from financial statements and replies to questionnaires supplied by the companies. These five companies, which produce approximately half of the men's fine shirts manufactured in Canada, are:

Cluett-Peabody Company of Canada Limited
John Forsyth Limited
The B.V.D. Company Limited
Tooke Brothers Limited
Yamaska Garments Limited.

Four of the companies end their fiscal year on December 31 and one on August 31. Fiscal years ended within the calendar years have been combined.

The total sales in dollar value of the five companies had more than doubled from 1939 to 1947, although unit sales of shirts had shown a decrease for some of these companies.

During the same period, operating income, which may be defined as the profit from operations before provision for taxes on income, increased more rapidly than sales and in 1947 was more than three times that of 1939. As a percentage of sales, operating income increased from 5.8 per cent in 1939 to a peak of 9.4 per cent in 1946 and declined slightly in 1947 to 8.8 per cent. This will be seen from the following table.

TABLE 167
COMBINED SALES AND OPERATING INCOME
FIVE SHIRT COMPANIES

(thousands of dollars)

Year	Sales	Operating Income	
		Amount	Per Cent of sales
1939	5,694	330	5.8
1940-1944 average	8,506	624	7.3
1945	8,605	702	8.2
1946	10,091	949	9.4
1947	13,069	1,145	8.8

Source: Evidence, Royal Commission on Prices, p. 1821.

It should be pointed out that this averaging of composite operations does not reveal the much greater extremes in operating profits which existed among the various companies before the war than at present. In 1939, some companies had an extraordinarily high operating income as a percentage of sales; others had very much lower levels of operating income and one company incurred a loss. By contrast, in 1947, all five companies were enjoying a very comfortable position with regard to operating income, both in dollar value and as a percentage of sales. Of the five companies analyzed, two subsidiaries of United States companies had the highest percentages of operating income to sales in 1947.

The net profit of the five companies in 1945 was only slightly larger than in 1939 but increased rapidly in the next two years and by 1947 was more than double that of 1939. As a percentage of sales, net profits showed a decline between 1939 and 1945, followed by increases in 1946 and 1947. The reduction of net profit in relation to sales during the war years was due to the imposition of the excess profits tax in 1940. The effective rate of all taxes on income paid by these companies was 16 per cent in 1939, 56 per cent in 1945, 51 per cent in 1946 and 46 per cent in 1947. The improvement in dollar net profit in 1946 and 1947 appears to be attributable both to the higher dollar volume of sales and to the reduction in the excess profits tax.

TABLE 168

NET PROFIT IN DOLLAR VALUE AND AS A PERCENTAGE OF SALES
FIVE SHIRT COMPANIES

(thousands of dollars)

Year	NET PROFITS	
	Amount	Per Cent of Sales
1939	295	5.2
1940-1944 average	296	3.5
1945	314	3.6
1946	475	4.7
1947	637	4.9

Source: Evidence, Royal Commission on Prices, p. 1821.

Again it must be pointed out that averages do not tell the whole story. Thus, while the above composite operations of the five companies show net profits as a percentage of sales in 1947 still slightly below that of 1939, three of the five companies showed a very substantial increase in net profits in relation to sales during this period. In fact, two of them rose from deficit positions before the war to a net profit of 3.6 and 6.9 per cent respectively in 1947. The reduction in the average may be accounted for almost entirely by the percentage reduction in net profits of one company from the very high pre-war level of 12 per cent to 5.6 per cent in 1947.

Expressed as a percentage of the shareholders' equity, the net profit for the five companies shows an increase over the period, as will be seen in the following table.

TABLE 169

NET PROFIT AS PERCENTAGE OF SHAREHOLDERS' EQUITY
FIVE SHIRT COMPANIES

Year	Net Profit Per Cent of Shareholders' Equity
1939	6.4
1945	5.7
1946	9.3
1947	14.6

Source: Evidence, Royal Commission on Prices, p. 1822.

The upward trend in net profits, both in dollar volume and as a percentage of shareholders' equity, combined with the decrease in taxation, would suggest that the shirt manufacturers were in a position to give the consumer some relief in the matter of prices.

Wholesalers and Retailers

Since only one wholesaler and three retailers were called to give evidence during our investigations of the men's fine shirt industry, the information regarding their operations cannot be looked upon as giving a general picture, but it provides useful examples.

The wholesaler who was examined reported that both dollar sales and departmental profit more than doubled between 1939 and 1947, though departmental profit decreased slightly as a percentage of sales from 5.2 per cent in 1939 to 4.9 per cent in 1947. This would indicate that the increased dollar volume had enabled this wholesaler to take a small decrease in his net mark-up and still obtain an adequate profit margin.

An independent retail store, specializing in men's furnishings, which had a net mark-up of 37 per cent in 1947, showed a net profit of more than 10 per cent in the same year. One departmental store with a net mark-up in its shirt department of 32.6 per cent, showed a net profit of 6.4 per cent; while another, with a net mark-up of 19.4 per cent, showed a net loss of 4.3 per cent during the same period.

The evidence would suggest that a fixed retail mark-up policy, rigidly maintained in a period of rising costs when there are no equivalent increases in overhead expenses, tends to place the net profits of some retailers of men's shirts at an unduly high level. While a percentage mark-up system represents a quick and easy way to determine selling prices and to maintain stock control, it would seem that, if the retailer were to review his percentage mark-up each year on the basis of the previous year's performance, it might frequently be possible for him to adjust his mark-up so as to provide some reduction in price to the consumer.

WORK CLOTHING

We chose overalls as the item of work clothing for special investigation for two reasons: first, they are an essential work garment for farmers, factory workers, railwaymen, construction workers, painters and many others, and second, they are the item of clothing which has shown the greatest price rise in the cost-of-living index since 1939, having reached 236.9 in August, 1948, compared to a total clothing index of 175.9.

The various types covered by our investigation included coveralls and dungarees as well as the regular overalls. These are all standard utility garments, with no style factor involved. The chief differences in value lie in the amount and weight of material used and such variations of detail as the number and lining of pockets. Blue denim is the standard material used.

The same firms which make overalls, also, commonly manufacture other articles of work clothing such as work shirts, shop coats, mackinaws, work gloves and caps. Some have branched out from work clothing into the field of children's wear or the women's and children's novelty business, including items such as children's picture overalls.

The work clothing industry shows a complete lack of concentration and uniformity of size. There are 72 firms whose principal business is work clothing, and the five largest of these account for less than one-quarter of the gross value of production.

For their basic material, blue denim, the industry is heavily dependent on two domestic mills, Canadian Cottons Limited and the Dominion Textile Company Limited. The Canadian supplies of denim have been inadequate to fill the demand, and the two-thirds reduction in United States imports following the dollar-saving restrictions have led many work clothing manufacturers to seek additional supplies in the United Kingdom where the price of denim was however, at the time of the hearings, about six cents per yard more than for comparable Canadian cloth.

In pricing overalls, manufacturers work almost entirely on a basis of their actual factory costs plus a percentage to take care of other expenses and provide some margin of profit. The practice of working to a retail price is little used, as the work clothing manufacturers indicated that the retail price would vary considerably in the different retail stores.

EVALUATION OF FACTORS IN PRICE CHANGES

General Supply and Demand Factors

The production of overalls is considerably above pre-war levels and is sufficient to meet demand at present prices. However, the supply situation is tight and a number of factories are working below their full productive capacity in overalls, chiefly because of the difficulties of obtaining a steady flow of supplies of denim.

There was a considerable difference of opinion expressed as to the degree of buyer resistance which existed toward present prices. The representative of the Western Glove Company Limited, of Winnipeg, said they were not meeting the price resistance they had expected, and attributed this to the relatively high level of farm income. He stated that two bushels of wheat will buy a pair of overalls today, which they would not do in 1939. The representative of another Winnipeg firm, Monarch Overall Manufacturing Company, Limited, said that they were finding no buyer resistance on overalls and that "the prices were acceptable without any question." On the other hand, two retailers of overalls said that customer resistance to overall prices was definitely growing. The representative of the Hudson's Bay Company Limited, of Winnipeg, said they had recently reduced one line of overalls from \$4.95 to \$4.75 on that account, and the president of Jack Fraser Limited, of Toronto, stated they were buying only a month's or six weeks' supply of overalls ahead, as they were fearful of a sudden drop in the market, now that the production of overalls was greater and demand not so heavy.

Some manufacturers saw a trend in consumer demand toward improved quality in overalls rather than a reduction in price, more sanforized 8 ounce denim, graded sizing, extra pockets, double lining for

pockets, etc. Here again, the evidence from the retailers was just the reverse. Mr. Jack Fraser stated that 6-2/3 ounce denim was very popular and actually more in demand than the heavy denim; also that the sizing of overalls was much better than formerly and that there was no public demand for more accurate sizing at the present time.

Unit Costs and Selling Prices

Overalls, which were selling chiefly at prices ranging from \$1.49 to \$3.00 in 1939, were selling at \$3.25 to \$5.75 for the same or similar models in 1948. The average retail price of overalls had risen from \$1.93 in 1939 to \$4.57 in 1948, according to the Dominion Bureau of Statistics. These increased prices were due both to increases in production costs and in profit margins.

Costs of Production

The rise in the price of blue denim is the greatest factor in the increased costs of overall production. Canadian denims which sold for 14 cents a yard in 1939 had risen to 38 cents a yard by April, 1948, an increase of 156 per cent. Other domestic denims rose proportionately. The price of United States denims did not fluctuate as did broadcloth prices in that country but were held close to the price set by the Office of Price Administration. They are slightly lower in price than Canadian denims but their landed cost in Canada is about equal to the price of the Canadian fabric of the same quality. As mentioned previously, the price of United Kingdom denims is higher than for comparable qualities produced in Canada and the United States, but a number of manufacturers are supplementing their supplies from this source and absorbing the difference in price, in order to keep their factories operating.

The cost of materials is a particularly important factor in the price of overalls, since they use a heavy cloth containing a lot of cotton and require ample yardage, normally 44 to 48 yards per dozen.

The recent increase in price of domestic denims by half a cent a yard may mean an increase in the price of overalls due to the practice of the industry of changing prices only when the primary industry changes its prices, but adding in the additional costs of any other items at the same time.

The increase in the cost of findings for overalls is somewhat less than for shirts. One company estimated its increased cost for sundries at 72 per cent over 1940.

Higher wage rates, higher turnover and more non-productive labour have combined to increase labour costs in the work clothing industry. One manufacturer estimated his increase of direct labour costs on overalls at 89.4 per cent, while his increase on all labour costs was 116 per cent. Labour turnover seems exceptionally high in this section of the garment industry, and several manufacturers gave the less efficient running of their plants due to labour turnover and lack of a steady flow of materials as an important factor in higher prices. Several firms have

been able, however, to effect improvements in their machinery and methods which tend to counteract these labour difficulties.

The total increase in costs of production of overalls may be estimated from the figures provided by the manufacturers as to their best-selling lines. By averaging the factory-door costs and manufacturers' selling prices for eight models, on which figures were available from 1939 to 1948, it appeared that the average cost of production had risen from \$1.25 in 1939 to \$2.66 in 1948, or an increase of 112.7 per cent.¹ It will be noted that production costs on overalls have risen by a greater percentage than those on shirts.

TABLE 170

MANUFACTURERS' COSTS, SELLING PRICES AND MARGINS
FOR OVERALLS, EIGHT MODELS

(in dollars)

Year	Factory-Door Cost	Manufacturers' Selling Price	Manufacturers' Margin	
	Amount	Amount	Amount	Per Cent of Selling Price
September, 1939	1.25	1.66	.41	24.7
September, 1942	1.48	1.95	.47	24.1
September, 1946	1.68	2.10	.42	20.0
September, 1947	2.30	2.95	.65	22.0
1948, latest price	2.66	3.44	.78	22.7
Percentage increase 1948 to 1939	212.7	207.7	190.2	

Source: Evidence, Royal Commission on Prices, pp. 1079, 1092, 1106, 1128, 1148.

Manufacturers' Margins

On the eight models of overalls used for the above analysis, the manufacturers' selling prices had increased on the average slightly less in proportion than the costs of production. The manufacturers' margins, while almost double the pre-war dollar amounts, had decreased somewhat as a percentage of selling price, from 24.7 per cent in 1939 to 22.7 per cent in 1948.²

The evidence of work clothing manufacturers at our hearings indicated that, in general, they aimed at a gross margin on overalls of 20 to 25 per cent of their selling price, and the above averages bear this out. However, our investigations showed that on some of the other

¹See Table 170.

²See Table 171.

overall models, which were not included in the analysis because complete figures were not available from 1939 to 1948, the manufacturers were now taking margins as high as 32 and 36 per cent. Furthermore, of the twelve models on which six work clothing manufacturers submitted statements, the percentage of margin had increased, compared to 1939 or 1940, on eight models and decreased on four.

Retail Mark-ups

The retail mark-up on overalls has always been lower than on most types of clothing, partly because they are a staple article on which mark-downs and loss are negligible, partly because they bring people into the store who then make other purchases. The manufacturers indicated that the retailers might take a mark-up on overalls of anywhere from 23 to 33-1/3 per cent of selling price, depending on the locality and type of store.

Due to the flexibility of retail prices of overalls, the estimated retail prices quoted by the manufacturers give only a partial guide to the actual rise in retail price or change in retail percentage mark-ups. However, it seems clear from the evidence that there has been a decided upward trend in the percentage of mark-up taken by retailers on overall sales. Several manufacturers pointed out that the usual retail mark-ups before the war were around 25 per cent of selling price, but that the maximum mark-up permitted by the Wartime Prices and Trade Board was 33-1/3 per cent of selling, and that many retailers were continuing to take the higher mark-up.

Total Operations

Before the war, the manufacturers of overalls commonly operated on very low profit margins, but most companies have substantially improved their earnings since 1942, though this improvement is due not alone to overalls but to the other articles manufactured by them as well.

The following analysis of total sales, operating income and net profit is taken from the composite operations of five companies engaged in the manufacture of work clothing, who supplied financial statements and replies to questionnaires. Financial information for fiscal years ended within the calendar years has been combined. The five companies are:

Kitchen Overall and Shirt Company Limited, Brantford, Ont.

Larned Carter and Company Limited, Toronto, Ont.

Monarch Overall Manufacturing Company Limited, Winnipeg, Man.

Union Overall Manufacturing Company, Montreal, Que.

Western Glove Works Limited, Winnipeg, Man.

The sales of the five companies have increased substantially and were, in 1947, nearly three times the 1939 volume. The operating income of the companies increased enormously from \$12,703 in 1939 to \$361,793 in

1947. The sales and operating income, together with their related percentages, will be seen from the following table.

TABLE 171
SALES AND OPERATING INCOME
FIVE WORK CLOTHING COMPANIES
(thousands of dollars)

Year	Amount	Operating Income	
		Amount	Per Cent of Sales
1939	1,468	13	.9
1942-1945 average	2,866	157	5.5
1946	2,884	221	7.6
1947	3,812	362	9.5

Source: Evidence, Royal Commission on Prices, p. 1826.

In the work clothing industry, it is particularly true that averages taken from only a few companies cannot give a complete picture of the industry as a whole. Even among the five companies included in this analysis there are wide extremes. One company, which had always shown a small but comfortable profit since before the war, showed a deficit for the first time in 1947, while another company had increased its operating income in relation to sales from a fraction of one per cent in 1939 to 21 per cent in 1947.

During the period from 1939 to 1947, net profits also increased by leaps and bounds, whether viewed in dollar amounts, as a percentage of sales or as a percentage return on shareholders' equity. The greatest increase in profits occurred during the years 1946 and 1947. The increase in net profits is summarized in the following table.

TABLE 172
NET PROFIT AS A PERCENTAGE OF SALES AND SHAREHOLDERS' EQUITY
FIVE CLOTHING COMPANIES
(in dollars)

Year	NET PROFIT		
	Amount	Per Cent of Sales	Percentage Return on Shareholders' Equity
1939	6,774	.5	1.1
1942-1945 average	56,718	2.0	10.0
1946	111,121	3.9	12.8
1947	202,547	5.3	22.3

Source: Evidence, Royal Commission on Prices, pp. 1826-28.

Capital employed increased between 1939 and 1947 but not in the same proportion as did net profit, so that the net profit represented a larger return on the shareholders' equity.

From the financial statements and replies to questionnaires, it is apparent that most of the five companies analyzed were depressed until 1942. An increase in profits took place between then and 1945, when the return on shareholders' equity was just above 10 per cent. From then on, the net profits of certain of these companies have shown extraordinary increases. The net profits of one company jumped from \$28,325 in 1945 to \$74,940 in 1946, and \$123,378 in 1947. Two other companies tripled their net profits between 1946 and 1947.

It seems evident that some of the work clothing manufacturers have received very high profits in 1947 and that part of the increased profits during 1947 might well have been passed along to the consumer.

The two retailers who supplied information during our investigations of the work clothing industry both showed higher profits during 1946 and 1947 than before the war, though one company's net profits were very much reduced when compared with the "golden years" from 1942 to 1946, when the costs of distribution were much lower in proportion to sales. The other company showed a decreasing percentage of gross profit to sales when comparing 1947 to 1939, but, during the same period, the percentage of expenses to sales decreased even more, so that departmental profits showed an increase in relation to sales. From the evidence of this second retail firm, it would appear that a retail mark-up of 25 per cent on overalls was sufficient to realize a reasonable profit in a store which does not carry too large an overhead.

WOMEN'S AND CHILDREN'S CLOTHING

The rise in prices for women's and children's clothing has been less than that for men's clothing, but the women's wear sub-group in the cost-of-living index has risen 68.8 per cent since August, 1939. A large part of this price increase occurred during the past two years, the index moving from 126.2 in September, 1946, to 145.5 in September, 1947, and then to 168.8 at September 1, 1948. In general, cotton garments have gone up most, followed by wool garments, and then those made from synthetic fibres. The greatest increase was shown in women's cotton night gowns, with an index number of 219.1 at September, 1948.

For the industry as a whole, the cost of materials plus salaries and wages was 86 per cent of the gross value of production in 1939 and 77 per cent in 1947, from which it is evident that manufacturers' selling prices have risen more in proportion than production costs.

The choice of items for detailed investigation was confined to essential garments in which style was a minor factor, and emphasis was laid on the lower price ranges. The items selected were:

Women's clothing: slips, nightgowns and cotton house dresses.

Children's clothing: middy blouses, school blouses, tunics, flannelette and cotton pyjamas and frieze snowsuits.

EVALUATION OF FACTORS IN PRICE CHANGES

General Supply and Demand Factors

The production of most lines of women's and children's clothing is above pre-war levels, and supply is now sufficient to meet demand. This section of the clothing industry has returned to fairly competitive conditions, and the squeeze on manufacturers' margins in children's clothing particularly is evidence of customer resistance to higher prices.

Unit Costs and Selling Prices

Average retail prices of the women's garments chosen for this survey rose anywhere from 36 to 99 per cent between 1939 and 1948; the prices of the various children's garments also rose by varying amounts during the same period, from 32.9 per cent in the case of blouses to 99 per cent in the case of plain pyjamas. The greatest increases in retail prices occurred among the \$4-\$5 dresses, nightgowns, and in children's pyjamas. The following table shows the relative increases.

TABLE 173

AVERAGE RETAIL PRICES OF WOMEN'S AND CHILDREN'S CLOTHING^a

1939 and 1948

(in dollars)

	1939 Amount	1948 Amount	Percentage 1948 to 1939
Women's Garments			
Selling under \$4 in 1948			
Dresses	1.69	2.78	164.5
Slips	2.08	3.30	158.6
Nightgowns	2.74	4.00	146.0
Selling at \$4—\$5 in 1948			
Dresses	2.47	4.92	199.2
Slips	3.24	4.40	135.8
Nightgowns	2.98	5.07	170.1
Children's Garments			
Blouses	1.52	2.02	132.9
Tunics	2.95	4.31	146.1
Pyjamas:			
Plain	1.00	1.99	199.0
Printed	1.19	2.15	180.7
Snowsuits	4.32	6.07	140.5

^a) This is a composite of information received by the Royal Commission from 13 women's clothing firms and 10 children's wear firms.

Source: Evidence, Royal Commission on Prices, pp. 1769-70, 1782.

Costs of Production

The manufacturers' costs of production have increased substantially on all garments included in the survey, but by widely varying amounts for the different items. Among the women's items, the increases in factory-door costs ranged from 37.9 to 90.5 per cent. Production costs increased less than the retail selling price for dresses and nightgowns in the \$4 - \$5 category, but more for the other items. In children's clothing, the increases ranged from 40.3 to 100 per cent on various items. Manufacturers' production costs have increased more proportionately than the retail selling price for children's blouses, pyjamas and snowsuits, but less than retail prices for tunics. The increases in the costs of production will be seen from the following table.

TABLE 174
AVERAGE FACTORY-DOOR COSTS OF^a
WOMEN'S AND CHILDREN'S CLOTHING
1939 and 1948
(in dollars)

	1939 Amount	1948 Amount	Percentage 1948 to 1939
Women's Garments			
Selling under \$4 in 1948			
Dresses	.82	1.44	175.6
Slips	.98	1.62	165.3
Nightgowns	1.28	1.97	153.9
Selling at \$4—\$5 in 1948			
Dresses	1.26	2.40	190.5
Slips	1.45	2.00	137.9
Nightgowns	1.42	2.34	164.8
Children's Garments			
Blouses	.71	1.06	149.3
Tunics	1.44	2.02	140.3
Pyjamas:			
Plain	.54	1.08	200.0
Printed	.62	1.17	188.7
Snowsuits	2.22	3.73	168.0

a) This is a composite of information received by the Royal Commission from 13 women's clothing firms and 10 children's wear firms.

Source: Evidence, Royal Commission on Prices, pp. 1770, 1782.

Factory labour costs have increased considerably over the period, but do not account for more than about 10 per cent of the increase in the average retail price of the women's garments in the survey, nor more than 10 to 20 per cent of the increase in retail prices of the various children's items. In children's clothing, factory labour costs were 50 per cent higher on blouses in 1948 than in 1939, 30 per cent higher on tunics, 83 per cent on pyjamas and 23 per cent on snowsuits.

Manufacturers' Margins

In women's clothing, the manufacturer's average gross margin on the 32 garments surveyed (16 dresses, 10 slips and six nightgowns) had increased only from 33 cents per garment in 1939 to 37 cents per garment in 1948. As a percentage of selling price, the gross margin realized on these particular garments had fallen from 22.7 per cent in 1939 to 16.8 per cent in 1948. However, these companies also manufacture garments in higher price ranges and on their over-all operations there is a reverse trend. On total operation, manufacturers of women's dresses increased their gross profit from 18.6 per cent of sales in 1939 to 25.0 per cent in 1947, while manufacturers of slips and nightgowns increased their gross profit from 14.3 per cent of sales to 17.5 per cent in the same period.

Children's garments showed much narrower manufacturers' margins, on the whole, with a more mixed picture among the various items. On children's blouses and snowsuits, manufacturers' margins declined both in cents per garment and as a percentage of selling price between 1939 and 1948. On pyjamas, the gross margins increased in cents per garment but decreased as a percentage of selling price, while for tunics, the margin increased both in cents and percentagewise. The composite operations of ten manufacturers of children's clothing show a slight over-all decrease in the gross margin of profit as a percentage of sales from 18.3 per cent in 1939 to 17.2 per cent in 1947. The following table shows the manufacturers' margin on the children's garments included in the survey.

TABLE 175
AVERAGE OF MANUFACTURERS' MARGINS ON CHILDREN'S CLOTHING
1939 and 1948
(in dollars)

	1939		1948	
	Amount	Per Cent of Selling Price	Amount	Per Cent of Selling Price
Blouses	.19	21.1	.15	12.4
Tunics	.19	11.7	.49	19.5
Pyjamas, plain	.06	10.0	.08	6.9
Pyjamas, printed	.08	11.4	.12	9.3
Snowsuits	.40	15.3	.14	3.6

Source: Evidence, Royal Commission on Prices, pp. 1785-88.

Retail Mark-ups

The retail mark-ups were approximately the same on all the women's garments included in the investigation, about 40 per cent, including sales tax and transportation, and this remained remarkably steady throughout the period. On children's garments, the retail mark-ups were also relatively constant, with mark-ups of 40 to 41.8 per cent on most garments in 1948 and 36.2 per cent on snowsuits.

For the 32 garments in the women's group, the average dollar and cent spread between retail price and factory selling price had increased from 74 cents per garment in 1939 to \$1.21 per garment in 1948. In the children's group, the actual dollar and cent increase in average retail mark-ups between 1939 and 1948 ranged from 19 cents on blouses to 50 cents on snow suits.

Total Operations

A survey of the composite operations of 13 manufacturers of women's clothing and 10 manufacturers of children's clothing was compiled from financial information supplied by the companies, and forms the basis for the following analysis of sales, operating income and net profit among manufacturers of women's and children's clothing.

The total volume of dollar sales approximately doubled between 1939 and 1947 for both women's and children's clothing. Operating income (the income on operations before taxes) increased much more rapidly than sales among the women's clothing manufacturers; among children's clothing manufacturers, it remained remarkably constant as a percentage of sales from 1939 to 1945, but increased somewhat in 1946 and 1947. In dollar value, the operating income of the children's clothing manufacturers more than doubled during the period, while that of the women's clothing manufacturers went from \$249,027 in 1939 to \$1,341,758 in 1947, between five and six times as much. The sales and operating income, together with their related percentages, will be seen from the following table.

TABLE 176

SALES AND OPERATING INCOME
WOMEN'S AND CHILDREN'S CLOTHING MANUFACTURERS
(thousands of dollars)

	Sales	Operating Income	
		Amount	Percentage of Sales
13 Women's Clothing Manufacturers			
1939	6,628	249	3.8
1945	10,913	955	8.8
1946	12,508	1,322	10.6
1947	13,785	1,342	9.7
10 Children's Clothing Manufacturers			
1939	4,134	229	5.5
1945	7,760	444	5.7
1946	7,659	528	6.9
1947	8,325	544	6.5

Source: Evidence, Royal Commission on Prices, pp. 1771, 1789.

From 1939 to 1947, net profits increased substantially in dollar amounts for both women's and children's clothing manufacturers. As a percentage of sales, they increased in the women's clothing group from 3.1 per cent in 1939 to 5.5 per cent in 1947, but in the children's clothing group, they decreased slightly from 4.3 per cent in 1939 to 4.1 per cent in 1947.

The failure of net profit to improve as a percentage of sales between 1939 and 1945 as did operating income was perhaps due to the higher rates of taxes on income and excess profits, which were, of course, more onerous during the war years. Conversely, from 1945 the decrease in rates of excess profits taxes may be reflected by substantially higher percentages of net profits to sales.

The following table summarizes the changes in net profits among women's and children's clothing manufacturers.

TABLE 177
NET PROFIT
WOMEN'S AND CHILDREN'S CLOTHING MANUFACTURERS
(in dollar amounts and percentage of sales)

	Net Profit	
	Amount	Per Cent of Sales
13 Women's Clothing Manufacturers		
1939	208,549	3.1
1945	439,326	4.0
1946	692,584	5.5
1947	752,430	5.5
10 Children's Clothing Manufacturers		
1939	178,859	4.3
1945	186,258	2.4
1946	296,035	3.9
1947	338,972	4.1

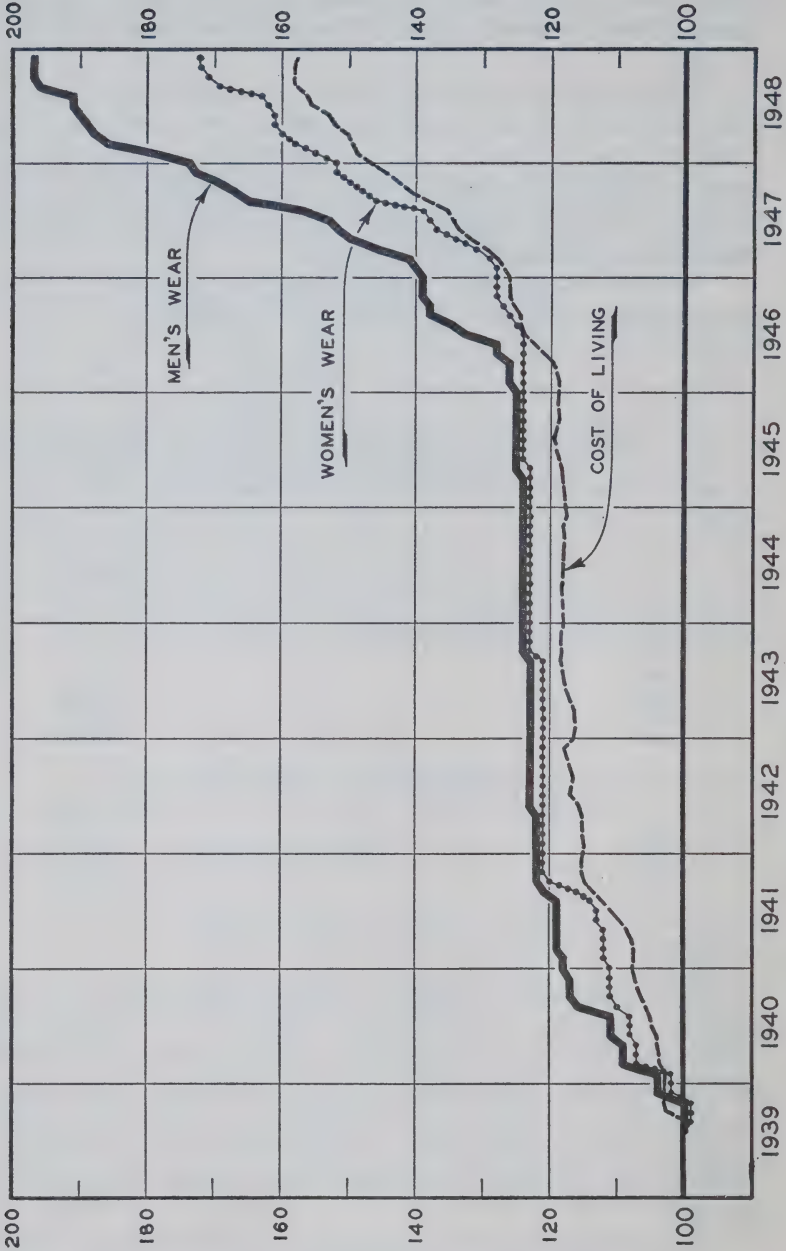
Source: Evidence, Royal Commission on Prices, pp. 1772, 1789.

As a percentage return on shareholders' equity, the net profits of the women's clothing manufacturers were 16.8 per cent in 1947, and of the children's clothing manufacturers, 16.5 per cent in the same year. There are substantial variations in the percentage return on shareholders' equity among the different companies in each group, however. In the women's clothing, this return ranges from 9.9 per cent to 28.1 per cent, while in the children's clothing group, it goes from 13.0 per cent to 72.9 per cent.

This analysis would suggest that, in view of the higher dollar volume of sales and the decreases in taxation, some of the manufacturers of women's and children's clothing appeared to be in a position, in 1947, to make some reductions in prices and still provide for a reasonable return on the investment of the shareholders.

CHART XVIII
CLOTHING RETAIL PRICE INDEX

(AUGUST 1939 = 100)



Source: Dominion Bureau of Statistics, Ottawa.

11

THE LUMBER INDUSTRY

LUMBER is one of the principal materials in residential construction. For all types of residential housing in general, including apartments and duplexes as well as single unit dwellings, and taking into account the differences in materials used from coast to coast, lumber on the average accounts for over 40 per cent by value of all materials and built-in equipment going into on-site construction.¹ Stated in another way, lumber accounts for 13 to 14 per cent of the cost of a house including the lot and labour. It has been estimated that 1,216 million board feet or nearly one quarter of the total annual Canadian production is required for the government's 80,000 unit housing target in 1948.²

Substantial quantities of lumber are used by commercial and industrial construction industries by railways and mines, and by governments in public works. Farmers are regular purchasers of lumber for the erection and repair of buildings and fences. Several industries manufacture articles in which wood is the principal component. The important field of wooden containers, where the cost of lumber has an influence on food prices, is an example. Indeed, few industries are completely independent of the use of lumber.

Lumber has been, for many years, one of Canada's leading export commodities. Demand has been at a high level because of the requirements for reconstruction throughout the world.

Canadian production is now considerably higher than in the pre-war period. An output of 3,977 million board feet in 1939 may be compared with the record levels of 5,083,280,000 board feet in 1946 and 5,346 million board feet in 1947. Production for 1948 promises to be close to the previous year's figures.

The Canadian wholesale price index for lumber had advanced to 250.7, a figure two and one-half times the 1935-1939 level, by September, 1947, when price control was suspended. A further increase since de-control has brought the index to three times the pre-war figure, August, 1948: 305.8, 1935-1939=100.

¹"Manpower and Material Requirements for a Housing Program in Canada", King's Printer, Ottawa, 1946, p. 66.

²Evidence, Royal Commission on Prices, p. 1534.

NATURE OF PRODUCT

Softwoods comprise by far the larger proportion of Canadian production, as shown in the following table.

TABLE 178
LUMBER CUT, BY KINDS OF WOOD, 1946
(millions of board feet)

	Amount	Per Cent of Total
Spruce	1,783	35
Douglas Fir	1,128	22
Pacific Coast Hemlock	452	9
White Pine	351	7
Cedar	222	4
Jack and Lodge Pole Pine	236	5
Other Softwoods	488	10
Hardwoods	423	8
Total	5,676	100.0

Source: Dominion Bureau of Statistics, Ottawa.

Spruce is found in every province, while Douglas fir and Pacific Coast hemlock grow only in British Columbia. These three species account for about two-thirds by quantity of the total lumber output.

Sawn lumber is produced in a wide variety of dimensions and patterns, which have become standardized in the practices of the trade over many years, although there are regional variations in standard finished sizes. The sawmill operator has some latitude as to what he will cut, but the dimensions and the relative proportions of each that develop in the sawing depend to a considerable extent upon the size and quality of the available logs.

Lumber may be marketed as green, air-dried, or kiln-dried; it may be rough or dressed in numerous forms or patterns. Processing beyond the sawing stage may be completed at the sawmill, or the dressing and drying may be done by the retailer, depending upon the particular facilities available. The manufacture of doors, sash, frames and other millwork is closely allied to the lumber industry and to a considerable degree is in the same hands. A substantial proportion of lumber requirements for construction is in 2" x 4" dimension and 1" x 6" boards. Most framing in residential construction is done with 2" x 4" dimension and sheathing and closing with 1" x 6" boards. We directed our inquiry into price increases with particular reference to those sizes in spruce and Douglas fir.

GRADING

Lumber is an organic substance and no two pieces are identical. There are wide variations in quality between "clears" free of all defects and "culls" that are barely usable except for fuel. Grading is accordingly essential and various systems of grading have been developed in the industry over many years.

The general purpose of grading is to establish and maintain a standard for use among mills manufacturing the same or similar woods so that a given grade of lumber will represent the same value and can be used for like purposes irrespective of the mill from which it comes or the log from which it is produced. A grade is defined by the number or degree of defects or irregularities which are permitted. The principal types of such defects and irregularities are:

Checks, lengthwise separation of the wood usually occurring across the rings of annual growth.

Imperfect manufacture, includes chipped or torn grain, skips in dressing, machine burn and mismatching.

Knots, classified according to size, quality (sound or unsound; tight or loose) and occurrence (number in a given area).

Pitch streaks and pitch pockets.

Shakes and splits, lengthwise separation of the wood.

Stain, sap stain in varying degrees of discolouration.

Variations in sawing.

Wane, bark or lack of wood on the edge or corner (pieces free from wane are termed "square edged").

Warp, variation from a tree surface including bow, crook and cup.

Wormholes, of varying sizes.

Lumber may be described as falling into the broad classifications of the clear grades, including the various grades of flooring, stepping, siding and finish where appearance, as well as wearing qualities, is important; the construction grades, including the grades of common boards and dimension lumber used as a general purpose product for sheathing, sub-flooring, rafters, joists, etc., in ordinary types of construction; and the structural grades for heavier construction where strength is a prime consideration.

There are also grades for industrial and shop lumber, such as door stock and ladder stock, and there is a further list covering railway car material. Each category is graded as to quality, No. 1, No. 2, etc. During the war some of the grades were merged or eliminated.

Grading Practices; West Coast

Lumber is usually graded after dressing. In the case of the West Coast industry, if it is for Canadian or United States rail shipment it is graded by the company's own employees. If the lumber is for export, including ocean shipments to the eastern United States, grading is done by the Pacific Lumber Inspection Bureau. This organization was formed

in the 1890's by the export sawmills in British Columbia, Washington and Oregon. The graders employed are selected from among men of some years' experience in the mills. Classes are given and examinations are held periodically to qualify candidates. The result is that lumber from the different mills is graded similarly so that overseas buyers can order from a number of sources in the confidence that their purchases will all be graded to a uniform standard. In many cases, letters of credit covering export sales provide for the inclusion of Pacific Lumber Inspection Bureau certificates with the shipping documents, and in some overseas markets such certificates are required for customs purposes.

In domestic shipments, where the lumber is graded by the company's own employees, a booklet of grading rules is published by the leading lumber association in British Columbia, which has been performing that function for many years. The mills conduct grading classes to familiarize their men with the rules. Test examinations are conducted by the larger concerns and periodically, a general test examination is set by the association.¹ Neither in this nor in the Pacific Lumber Inspection Bureau grading has there been supervision or intervention on the part of the provincial or Dominion governments. The West Coast mills all cut much the same type of logs with similar equipment, making for uniformity in the product. Evidence given before us was to the effect that disputes over grades were rare.

Some mills grade mark each individual piece of lumber with stencil or crayon in the case of the upper grades but the commons are generally not grade marked. It was said that there had been no demand from the trade for such marking.² Grade marks, of course, could be removed by the dishonest dealer in any case. The cost of grade marking was estimated to be 25 or 30 cents per thousand board feet which was not a factor at present prices but would be a consideration should the price fall to around \$11 per thousand as in 1931.

With respect to the different procedures employed on the West Coast in grading for the overseas and for the domestic markets, it was represented that in the case of the former, transactions are commonly in large amounts and an order may be filled from several mills. This has given rise to the necessity for an independent grading authority, the Pacific Lumber Inspection Bureau, which works for both the buyer and the seller. In domestic sales lumber is usually bought in carload lots and the amounts involved are consequently much smaller, so that adjustments if necessary can be effected more readily.

Grading of "Merchantable" Spruce

With respect to the grading of spruce, the evidence of witnesses from points east of the Rockies indicated that there may be considerable

¹Evidence, Royal Commission on Prices, pp. 1515, 1668.

²Ibid., p. 1668.

variance in the quality of different lots of lumber being marketed as "merchantable". Such variation is attributed principally to:

- a) differences in the quality of the timber being cut in particular localities,
- b) differences in the class of equipment, especially planers, as between mills,
- c) differences in the idea of what constitutes "merchantable" as between different sections.

It was indicated in the evidence given by wholesalers that part of their function was to be familiar with the differences in the product of various mills and to market each to the best advantage. Also, in a dispute recourse can be had to an inspection under the auspices of one of the associations such as The Canadian Lumbermen's Association or Maritime Lumber Bureau. In most cases, witnesses told us, the system doubtless works well enough in practice,¹ and it is probable that the greater portion of off-grade lumber can be attributed to new and inexperienced entrants and "fly-by-night" operators. However, it may be that further consideration should be given to the subject of grading spruce lumber.

Grading; General Comments

Notwithstanding the best grading rules, some deterioration in quality in the various grades has been practically inevitable. There is a high line and a low line in each grade and there will be many "liners", where it is a question, for example, whether the pieces fall within the low line of No. 1 Grade or within the high line of No. 2 Grade. There may be a tendency in a seller's market to include such boards in No. 1. Conversely, in a buyer's market the mills are likely to "sweeten" their grades to make their product more attractive.

Other general comments may be made with regard to lumber grading. In contrast to some other graded commodities, a relatively small proportion of the total lumber marketed is bought by grade by the ultimate user. The latter, consequently, is generally less concerned with the question of the grade of the lumber as such than with the quality of the house or article of which lumber is a component. It may be reasonably assumed that the industrial user and the building contractor are aware of the character of the grades and are alert to ensure that the lumber they buy comes up to the specifications they require and for which they are paying. However, if the industrial user and the builder lack workmanship and integrity, the grading of lumber means little for the protection of the purchasers of their products.

It may be well to add the comment that the various grades which develop in the sawing of lumber occur because trees grow that way and are not the result of any production plan of the manufacturer. Within certain limits the proportions of the better grades can be increased by the skill of the sawyer, who directs the setting of the log during the

¹Evidence, Royal Commission on Prices, p. 1585.

sawing process, and whose ability or the lack of it, it is said, can virtually make or break a mill. It is a feature of the industry that lower grades and less desirable specifications are produced as an unavoidable by-product of the manufacturing operation, giving rise to a particular marketing problem. The utilization to the fullest extent of the entire content of the log has engaged the attention of the larger and more efficient members of the industry. A considerable number of new plants, such as pulp mills, have been added in recent years to treat what otherwise largely would be waste.

DRYING

Allied with the question of grading is that of drying or seasoning. There was some evidence, that because of the urgency of demand, a significant amount of lumber has gone into housing and other uses in an inadequately seasoned condition. The difference in weight and consequently in freight costs as between dry and green lumber normally renders it advantageous to the trade to allow lumber to season properly, and the situation seems likely to remedy itself as the market comes into better balance.

SOURCES OF SUPPLY AND ORGANIZATION OF THE INDUSTRY

Timber is produced in some quantity in every province of Canada. Of the total forest area of the Dominion, ownership of over 90 per cent is vested in the Crown, and is administered by the provincial forest authorities. However, 71 per cent of the forests in New Brunswick, 50 per cent of those in Nova Scotia and all in Prince Edward Island are privately owned. Lumber firms, leasing timber rights on Crown lands, must abide by regulations enforced by the provinces for the conservation of this section of the public domain. In addition, they pay stumpage dues, at various rates in the several provinces, on the timber which they cut. The distribution by provinces of the lumber cut in 1946 is shown by the following table.

TABLE 179
LUMBER CUT BY PROVINCES, 1946
(millions of board feet)

	Amount	Per Cent of Total
British Columbia, coast	1,683	33.1
British Columbia, interior	486	9.5
Quebec	1,162	22.9
Ontario	673	13.2
New Brunswick	316	6.2
Nova Scotia	331	6.5
Alberta	256	5.0
Saskatchewan	105	2.1
Manitoba	59	1.2
Prince Edward Island	12	.3
Total	5,083	100.0

Source: Dominion Bureau of Statistics, Ottawa

Although each part of the country has a substantial output of lumber, there is an absence or shortage of certain necessary types and species in various sections. Fir timbers, cedar siding, and red cedar shingles, for example, are shipped from the West Coast across Canada as far as the Maritimes, while hardwood flooring from Ontario and Quebec is marketed in western Canada. Geography and freight rates are consequently important factors in the distribution of lumber.

The lumber industry is comprised of the three trade levels of manufacturing, wholesaling and retailing. The division is by no means clear cut, since some manufacturers have their own wholesale organizations and some have their own retail outlets. Some members of the industry, who are essentially retail dealers, operate sawmills.

Manufacturers

The following table classifies sawmills in Canada according to the quantity of lumber sawn in 1946.

TABLE 180
CLASSIFICATION OF SAWMILLS ACCORDING
TO INVENTORY OF LUMBER SAWN IN 1946^a

Production of Sawn Lumber in Thousands of Feet Board Measure	Number of Mills	Per Cent of Total Number of Mills	Per Cent of Total Quantity Sawn
Less than 100	1,540	27.1	1.5
100 to 199	952	16.8	2.6
200 to 499	1,363	24.0	8.3
500 to 999	827	14.6	11.2
1,000 to 4,999	861	15.2	33.0
5,000 to 14,999	92	1.6	14.5
15,000 to 19,999	15	.3	5.1
20,000 and over	26	.4	23.8
	5,676	100.0	100.0

^a In addition to the above number of mills which report to the Dominion Bureau of Statistics, there are probably several thousand other small operators including farmers sawing off their own wood lots.

Source: Dominion Bureau of Statistics, Ottawa.

Mills sawing less than one million feet a year account for 82.5 per cent of the total number and in the aggregate produce 23.6 per cent of the total. The group sawing between one million and 15 million feet represents 16.8 per cent of the total number and produces 47.5 per cent of the total output, while the 41 largest mills with production in excess of 15 million feet account for 28.9 per cent of the total. Of the last named group of large mills, 31 are on the West Coast, where they account for 73.8 per cent of the total quantity sawn in that district. Four are in Ontario and four in Quebec where they produce only 15 per cent and 8 per cent of the totals in their respective provinces. Indeed, east of the West Coast a substantial proportion of the output comes from mills in the one million to five million feet category.

West Coast Sawmills

Log-producing Mills

The evidence indicates that the larger mills have substantial timber reserves and conduct their own logging operations. This involves for the mill a survey and the construction of a road or logging railroad to tidewater. Logging operations are then conducted from the valley bottom up the mountain sides. Cable systems are set up to convey the logs from the stump to an assembly point on the truck road or railroad, whence they are transported to the water. They are there made up into rafts or booms and towed to the mill, sometimes for considerable distances. Fir, hemlock and cedar are found in the same stands and some companies follow the practice of trading logs of a species and type which they do not want for other logs of the required species and type.

At the mill the logs are hoisted from the water and placed on a carriage which runs back and forth against the saw. The log is turned and held in various positions by the mechanism on the carriage, as directed by the sawyer, to obtain the cuts and dimensions desired. The larger mills usually use band saws. The lumber is carried by conveyor belts to other smaller saws for re-sawing, following which it goes on to be dressed and air or kiln-dried.

The machines of these mills are largely designed to meet export trade requirements and a large proportion of their products goes to overseas markets. On the domestic market the merchandising practices of the different concerns is not uniform. Among the larger companies, Bloedel, Stewart and Welch Limited has a subsidiary sales company in Ontario but elsewhere sells through wholesalers or commission men except in the case of mines and railroads with which it deals directly. The H. R. MacMillan Export Company Limited, has its own wholesale organization. British Columbia Forest Products Limited, sells its products through the H. R. MacMillan Export Company Limited, except for a small proportion sold locally around the sawmills. All mills do a certain amount of retail business in the areas immediately around their mills. The Canadian Western Lumber Company Limited sells through wholesalers and also has three retail subsidiaries, Crown Lumber Company Limited, operating 30 yards in Alberta; Security Lumber Company Limited, operating 64 yards in Saskatchewan, and Coast Lumber Yards Limited, operating one yard in Winnipeg.

Independent Loggers

Apart from the logging operations of the large mills, there is also an important independent logging industry on the West Coast. About 40 per cent of the log output is produced by the independent loggers. Some of these are large and efficient operators but others are quite small, depending entirely on trucks for hauling. A regular system of grading is in force and an open market for logs has developed which has no counterpart in eastern Canada.

Log-buying Mills

There are mills which have no timber limits or whose limits are inadequate to supply their operations and which, in consequence, are dependent for their logs on the independent loggers. There are approximately 80 such operators on the West Coast, accounting in the aggregate for about one-third of the total production in that area. In commenting on this situation, the Report of the Sloan Commission on the Forest Resources of British Columbia remarks as follows:

"About one-half of the Coast mills are dependent either wholly or in large part on the open log market for their log supply. This simply means some log-producing concerns do not operate sawmills and some sawmills do not hold any reserves of timber. The open log market is the channel through which the process of extraction and conversion are integrated by these two classes of producers and consumers; in other words, it is the link which joins them together. . .

While it may be possible for the production from some Crown timber working-circles to be allocated to supply this market. . . it seems to me the future of those mills depending solely, or in most part, on the open market supplies for their logs is none too bright."¹

Export Sales Organization

Historically the West Coast mills have sold approximately two-thirds of their production in various export markets. Overseas sales are largely made by the H. R. MacMillan Export Company Limited, which handles the output of many smaller mills in addition to that of its own operations, by Alaska Pine Company Limited, and through Seaboard Lumber Sales Company Limited. The latter is co-operatively owned by 33 member mills for which it handles waterborne shipments. Among the advantages of this central selling organization for overseas orders is the fact that Seaboard is able to charter vessels and make up cargoes from its member mills for markets where no one mill's shipments would be large enough to warrant chartering. Seaboard buys from the mills only to fill specific orders which it knows the mills desire and are able to fill. Purchases are made on a free alongside vessel basis, Seaboard taking formal ownership of the lumber. A commission of 2½ per cent is deducted from the purchase price out of which operating expenses are met and, after paying a dividend of five per cent and taxes, any surplus is refunded to the mills.

In sales to the United Kingdom during the war and post-war periods, there has been in effect only one wholesale buyer, the British Timber Control. The practice has been for the British Timber Controller to negotiate with the representatives of the export groups and arrive at a

¹Report of the Commissioner, Hon. G. McG. Sloan, relating to the Forest Resources of British Columbia, King's Printer, Victoria, 1945.

contract uniform as to specifications and prices for the Coast region. The Dominion government has not participated in these negotiations, which have been carried out independently between the industry and the British Timber Control.

The coast mills' market in the United States is largely on the eastern seaboard where the high freight cost outbalances the United States duty on lumber, thus enabling them to compete with the Washington and Oregon mills which produce similar species and types of lumber.¹

Operations in Canada Other Than on the Coast of British Columbia

The deep winter snow, the more extreme climate and the suitability of rivers after the spring thaw for log driving in most parts of Canada other than the coast of British Columbia make logging largely seasonal. In contrast to the West Coast where most loggers are professional woodsmen, some 75 per cent of the workers in the eastern industry are farmers who turn to logging during the off season in farming. In addition, many farmers sell logs which they cut in their own woodlots.

Logging operations are usually conducted by the mill owners, who sometimes employ contractors and sub-contractors. Although there is some log production in the summer, where roads are good, particularly in hardwood, autumn and winter cutting is the usual routine. The logs after being trimmed and cut into merchantable lengths, are skidded onto the river ice to await the spring break-up, when they are carried on their way to the mills. In the case of many operations, river driving is not possible and the logs are transported to the mills by truck. Sawlogs, except at the coast of British Columbia, are not marketed as such but are converted into lumber by their owners. In some sections, however, considerable quantities of lumber are sawn by custom sawmills and other small mills purchase logs from the nearby farmers.

The brevity of the foregoing description of this section of the lumber industry is disproportionate to the relative importance of its output which comprises over 60 per cent by volume of the Canadian total. The varying nature of the operations in different sections, and the generally smaller size of the producing units, many of which serve local markets, give the industry a character which does not lend itself to summary description as do the more clearly defined and somewhat more spectacular operations of the West Coast lumbermen. The major producing areas are the northern and southern interior regions of British Columbia, northern Alberta, Ontario, Quebec, New Brunswick and Nova Scotia. All these areas produce surpluses for export. The Maritime provinces, traditionally, have shipped substantially to overseas markets, principally the United Kingdom. The remainder of the area sends its exports principally to the United States.

¹Evidence, Royal Commission on Prices, p. 1672.

WHOLESALEERS

As one wholesaler, Mr. A. P. Read, President, Read Brothers Limited, Toronto, said in giving evidence;

"Every wholesaler is a business unto himself. No two wholesalers do business exactly the same way. There are a number who act simply as commission agents for the mills and who simply handle accounts. . . Then they go from there where you have wholesalers financing mills."¹

The function of the lumber wholesaler are many. He finds markets for the product of the mills, especially the smaller operations which have no direct contacts with the market. Some mills have found it more economical to sell through wholesalers than to set up their own sales organizations.

The wholesaler who is in close touch with the market suggests to the mills advantageous ways of cutting their lumber. By the very nature of the product, mills cannot avoid producing some dimensions and grades that are less desirable than others, and the wholesaler's contacts with a broad market can assist the mill operator to market his entire output.

He has a knowledge of the quality of the product of the various mills gained by experience, inquiries and personal inspection. Even the larger retailers appear to buy quantities through the wholesale trade because of the better knowledge of the wholesaler as to where lumber can be obtained.

In some cases the wholesaler even assists the mills financially either through advances or by buying blocks of lumber on pro forma invoices. As explained by Mr. Read:

"A wholesaler will buy a block of lumber on a pro forma invoice. The manufacturer does not get his money immediately but he has that lumber sold. . . It will be shipped out during the summer, and if it is not shipped out it will be paid for on the agreed date and it is off his hands."¹

The wholesaler frequently extends credit to the retailers to whom he sells; the small mills supplying the lumber in many cases can not afford to have outstanding any large amount of accounts receivable, nor are they in a position to obtain the credit information necessary to avoid undue losses from bad debts.

In marketing the product of small mills which are without planing facilities, wholesalers frequently arrange to have the lumber finished in the dimensions and patterns required at a dressing-in-transit mill which operates on a custom basis.

RETAILERS

It is common practice in the retail lumber trade for dealers to carry, besides lumber, a line of millwork and builders' supplies including wall-boards, asbestos shingles, paints, hardware and cement. Sometimes, but not commonly, plumbing and electrical fixtures and supplies are included.

¹Evidence, Royal Commission on Prices, p. 1454.

The evidence seems to indicate that an increasing proportion of sales are in lines other than lumber and that there is a growing volume of lumber substitutes such as wallboards and asphalt shingles.¹

Many retailers, especially in the east, obtain a substantial proportion of their lumber from small mills within a relatively short radius of their yards. In such cases they may buy the small operator's entire cut which he delivers by truck to the yard unsorted and in the rough. It must then be tallied, put through the planer and graded by the retailer before being sold. Many retailers have such planing mills and also operate dry kilns and millwork plants in conjunction with their yards. In addition to their purchases from nearby mills, most retailers require to buy from wholesalers, usually in carload lots, commodities which are not produced or are produced in insufficient quantity or variety of dimensions in their own district. Thus, a retailer in Nova Scotia might buy through a wholesaler or commission man, fir timbers or cedar siding from the West Coast and possibly white pine for the millwork plant from Ontario or Quebec.

In the Prairie provinces the retail trade is dominated by the line yard companies which operate chains of branch yards in the cities and towns in that section. These branch yards sell millwork, shingles and a range of building supplies, and in some cases coal, in addition to lumber. Buying, which is done through the head office of each concern, is done both direct from the sawmills and through wholesalers. Price may vary among the different yards of any one company due to freight differentials.

There is no clear pattern in respect of the mark-up percentages traditionally taken by the retail lumber trade and there appears to be considerable variation between localities depending upon the rate of turnover. From evidence a mark-up of 26 per cent of selling price would probably be fairly representative of the general practice on commons and faster moving lines, while longer mark-ups would obtain on slow moving items.

FACTORS IN PRICE CHANGES SINCE THE BEGINNING OF THE WAR²

Timber prices were among the first to be brought under control. The Department of Munitions and Supply established a Timber Control in June, 1940, which by informal price agreements with the industry applied the brakes to rapidly accelerating prices. When the over-all price ceiling policy was instituted in November 1941, lumber prices came under the administration of the Wartime Prices and Trade Board. All prices were frozen at their basic period level but the actual ceilings applicable were varied and obscure for many in the trade. In view of this, and also of the large number of individual operators, it became clear that more specific ceilings would have to be introduced and, accordingly, numerous orders were issued setting maximum prices by regions for the various species and dimensions of lumber. These orders established, in many cases, prices which were somewhat in excess of basic period levels but they achieved a more clearly defined price ceiling, control over which

¹*Ibid.*, p. 1307.

²A large part of the material in this section, dealing with the price control period has been drawn from Annual Reports of the Wartime Prices and Trade Board.

should be enforced more readily. Ceiling prices under these orders were established at two levels of trade, manufacturers and wholesalers, and retailers. Wholesalers traded under the manufacturers' ceiling. The orders set forth maximum prices in dollars and cents for each item both at the manufacturing and the retail levels, and provision for a maximum percentage mark-up at retail was very exceptional.

During 1942 and 1943, costs in the industry appear to have risen substantially despite the operation of wage and manpower controls as well as other regulations aimed at the stabilization of costs. This was due to the heavy exodus of men from the woods operations both into the armed services and into more highly paid war industry. Wage rates rose despite controls, and the lessening of efficiency as the better men left, added a further element to costs. To cover these rising costs and to encourage production to the maximum to meet the urgent wartime demands, upward adjustments of about \$4.00 per thousand feet were made.

The price level established in 1943 was maintained with relatively little change until early in 1946. In April 1946, prices were increased by eight per cent at the mill level, while retail ceiling prices were left unchanged. This action was intended to pass on to the manufacturers the benefit of the removal of the eight per cent sales tax on lumber which had been dropped in May, 1945. Retailers had enjoyed in the interval an increase in their margins to this extent, since retail prices were inclusive of sales tax and its remission had not generally been passed on to consumers.

During the remainder of 1946 wages in the industry rose. On the West Coast an increase of 15 cents an hour and a shorter working week were granted following a strike which lasted over a month. A material rise in production costs resulted and there was evidence that costs were close to if not above the domestic ceiling price at the mill, while in marginal operations, especially in the log buying section of the Coast industry, there was evidence that they might be placed in a loss position. However, with the virtual disappearance of price control in the United States and a marked strengthening in export prices in other markets, the return to the mills increased to the point where relief by way of a domestic price increase on the grounds of over-all financial need was avoided.

In the spring of 1947, with decontrol of prices in sight, some upward price adjustments were made across the country to provide incentives for the production of certain types and dimensions in short supply for the housing program, to compensate the mills in some districts for reductions in their export quotas, and to narrow in some measure the spreads between domestic and export prices.

The foregoing can be illustrated in tabular form with reference to mill prices on 2" x 4" No. 1 common B. C. fir.

TABLE 181

INCREASES IN DOMESTIC PRICES, AND COMPARISON OF DOMESTIC PRICES WITH EXPORT PRICES^a

2" x 4" No. 1 COMMON BRITISH COLUMBIA FIR

1939-1948

(in dollars)

Date or Period	Increase per thousand feet	Remarks	Domestic Price per Thousand Feet	Export Price per Thousand Feet	
				United Kingdom	Other
June 1, 1939			14.00-16.00	17.00-19.00	16.00
1939-1940	3.00- 5.00	Pre-war prices	19.00		
May 1941	1.00	Period before control	20.00		
June 1, 1942		Incentive for war production	20.00	20.50	24.00
June 15, 1943	4.00	Comparison with export prices	24.00		
		Incentive to production and in recognition of known cost increases			
April 1, 1946	1.92	Eight per cent increase passing on remission of sales tax	25.92		
Dec. 1, 1946		Comparison with export prices	25.92	42.00	70.00
May 1947	12.00	Compensation for increase in domestic quota from 35 per cent to 40 per cent and to narrow the spread in anticipation of decontrol	38.00	56.00-60.00	62.00-86.00
Sept. 13, 1943	13.00-25.00	Increase since decontrol	51.00-63.00	60.00-65.00	64.00-68.00

a) Since suspension of price controls, there are variations among the different companies but the above figures appear to be reasonably representative for the purpose.
Source: Evidence, Royal Commission on Prices, pp. 1502, 1451, 1544, 1610, 1644, 1661.

The general course of prices is shown by the whole price indexes for lumber,

TABLE 182
WHOLESALE PRICE INDEXES, LUMBER
(1935-1939 = 100)

		Total Lumber	Fir Lumber	Spruce Lumber
Pre-War	1939—June	102.9	102.9	108.5
Period of Control	1942 June	148.7	139.2	165.1
	1945 Sept.	179.9	158.5	232.2
	1946 Sept.	190.0	171.2	247.5
	1947 Sept.	250.7	258.5	275.5
Period since Decontrol	1948 January	290.1	346.6	300.0
	1948 June	298.1	354.8	300.0
	1948 August	305.8	375.7	300.0

Source: Dominion Bureau of Statistics, Ottawa.

Subsidies

Apparently no subsidy arrangements were made covering the whole industry and, of those that were made, none lasted during the whole control period. Various subsidies were paid at times to meet particular problems of cost squeezes on certain kinds of distributors of lumber. The principal subsidies and the total amounts paid were as follows.

TABLE 183
SUBSIDIES PAID ON LUMBER BY WARTIME PRICES AND TRADE BOARD
(in dollars)

	Total Subsidy Paid	Date Terminated
Consumer, softwood	2,449,180	14 July, 1945
Retail, Prairie	622,042	15 Aug., 1943
Producer B.C. Coastal, incl. lath.	376,201	27 Oct., 1943
Producer B.C. Coastal, shingles	111,913	15 Aug., 1943
Sawmill B.C. Coastal, logs	261,663	30 June, 1945
Other Subsidies	328,918	
Total	4,149,917	

Source: Wartime Prices and Trade Board, Annual Report, 1946.

It is stated that the principal subsidy was introduced in 1943 to reduce the impact of higher softwood prices on certain groups of consumers. The arrangements provided that farmers, fishermen, fruit

and vegetable growers, trappers and certain other users could purchase lumber at retail, subject to certain limitations, for use in their personal trade or occupation at a discount of 10 per cent, the retailer concerned obtaining reimbursement from the Prices Board. As part of the general program of subsidy removal, the arrangement was cancelled in July, 1945.

We conclude that subsidies were not an important factor in the maintenance of lumber prices generally. The last of the subsidies was discontinued before the end of 1945 and their termination has not, we think, been a factor in the subsequent price increases.

Export Controls

During the war a system of quotas was put into effect by the Timber Controller, involving specific allocations to the United Kingdom and to various Commonwealth and United Nations countries. In January, 1946, the specific export allocations were discontinued and replaced by an over-all export quota leaving the trade free to choose its own export markets. An exception was made in the case of the United Kingdom whose contracts were protected by a special quota. The rising level of world prices, resulting in an increasing differential between domestic and export prices, led to the continuance of strict export controls, which are still in force.

The over-all effect of the system of export quotas may be illustrated by the following table.

TABLE 184

TOTAL CANADIAN LUMBER PRODUCTION AND TOTAL LUMBER EXPORT TO ALL COUNTRIES

(millions of board feet)

	Total Lumber Production	Exports to all countries	Retained in Canada	Per cent Retained
Average 1935-1939	3,627	1,844	1,783	49.2
Years 1946	5,083	2,083	3,000	59.0
1947	5,345	2,726	2,619	49.0

Source: Dominion Bureau of Statistics, Ottawa.

The increased proportion of production exported in 1947 as against 1946 is attributable largely to heavy export shipments of ties from northern British Columbia, to an increased export quota for the Maritimes on spruce of 50 million feet for the United Kingdom and 40 million feet to other markets when a surplus appeared to be accumulating; and to the removal of quota restrictions on hardwoods during the year. The present quotas, in effect since the beginning of 1948, provide that 40 per cent of B. C. Coast production must be retained in Canada, while for areas east of the Rockies the proportion is 50 per cent.

Considerations in the Setting of Export Quotas

The following considerations appear to have entered into the setting of the export quotas on lumber:

A supply adequate for reasonable requirements should be retained in Canada. Export percentages have been lowered on occasion to ensure this while at other times these have been raised when it was apparent surpluses were developing.

Canada is one of the principal world sources of lumber. The pressing requirements for reconstruction on the part of the United Kingdom and Western Europe have had a claim upon our assistance.

The lumber industry, especially on the West Coast and in the Maritime provinces, historically has depended upon various export markets for the sale of substantial proportions of its product. Permanent loss of some markets might have been risked if exports had been cut off or substantially curtailed by the diversion of any much larger proportion into the domestic market.

The foreign exchange derived from lumber exports has been of substantial importance to this country in helping to balance its international accounts. The developing dollar problem made lumber exports to the United States a factor of major importance.

TABLE 185

DOLLAR VALUE OF EXPORTS OF WOOD, UNMANUFACTURED OR PARTIALLY MANUFACTURED (EXCLUDING PULPWOOD, FIREWOOD, CHRISTMAS TREES, AND SIMILAR ITEMS)
CANADA, 1945-1948
(thousands of dollars)

	1945		1946		1947		10 months ending October, 1948	
	Value	Per cent	Value	Per cent	Value	Per cent	Value	Per cent
United Kingdom	\$60,895	43.6	\$59,202	33.8	\$104,928	37.3	\$56,383	24.9
Other British Countries	12,037	8.6	25,825	14.8	36,840	13.1	18,267	8.0
United States	64,253	46.0	80,138	45.7	112,783	40.1	142,360	62.8
Other Countries	2,572	1.8	10,055	5.7	26,528	9.5	9,813	4.3
Total	139,757	100.0	175,220	100.0	281,079	100.0	226,823	100.0

Source: Dominion Bureau of Statistics, Ottawa.

Table 185 indicates the increased dollar value of the exports by the sawmill, logging, shingle and plywood industries. It illustrates the marked shift which has taken place during 1948 toward the United States and away from traditional overseas markets. The latter have found it necessary to curtail their purchases on account of shortage of dollars. There are also recent indications that the United Kingdom's buying is to be more selective. This creates a problem in the disposal of lower grade material, especially for some mills which have been heavily dependent on sales to that market.¹

¹Evidence, Royal Commission on Prices, pp. 1526, 1527.

It was represented to us that, insofar as the British Columbia coast is concerned, it would be much more important that Canadian lumber should obtain freedom of entry into the United States market than that it should enjoy preferential tariffs in other markets whose lack of dollars prevented them from buying. The existing rate of \$1 per thousand feet on lumber entering the United States was not an important factor at the prices prevailing in 1948.

Some mills are specially geared to the export market, producing types or dimensions not usually marketed in that form in Canada.

Under price control, especially in its later stages, domestic ceiling prices were materially below the export level and there was evidence given before us that they were also in some, if not the majority of cases, below the cost of production.¹ The average return on the total of domestic and export shipments, however, enabled the industry generally to operate profitably. Nevertheless, there were mills which were close to the margin and were probably getting by only by exploiting the highest priced export markets to the limit of their quotas. Under these circumstances a reduction in the export quota involved a compensating increase in domestic prices if the marginal mills were to stay in business.

General Comments Regarding Price Control of Lumber

The control of timber, and its products, must have been very difficult to administer and was apparently one of the least successful in terms of price stabilization of any coming within the price ceiling. The wholesale lumber price index, on a 1935-1939 base, which had risen to around 180 by the close of hostilities, increased further to about 250 by September, 1947, when price control was suspended.

The steadily rising level of prices in world markets, in conjunction with the system of export controls made it possible to maintain domestic prices at a level close to and in many cases actually below the cost of production. In effect the domestic buyer was subsidized by the export buyer. On the one hand this situation permitted a considerable degree of stability in domestic prices during the war and in the immediate post-war housing construction period. This was of great advantage to the stabilization program as a whole. On the other hand, it made for intense pressure both on the price ceiling, while controls were in effect, and on the export quotas.² Manufacturers who had previously exported all or most of their production felt the effect of the export quota, while mills serving largely domestic customers were more interested in pressing for relief from price controls. There were doubtless many instances where manufacturers and wholesalers had to choose between filling the orders of their importunate domestic customers and the more profitable alternative of exporting to the limit of their quota. Even where over-all earnings were satisfactory, however, the manufacturer's normal disinclination to sell a portion of his product below its cost of production,

¹Evidence, Royal Commission on Prices, pp. 1526, 1527.

²Ibid., p. 1527.

must have made for steady pressure on the ceiling. It may be added that, while orders for the total quantities required to be retained in Canada were filled, there was a tendency, difficult to prevent, for the better grades to be shipped to the export markets where they commanded premium prices.

Distortions under Price Control

With abnormal demand, price control export quotas and so on, there was a tendency for the normal pattern of price relationships to become distorted and out of balance.

Mills were processing lumber to the point where it gave the greatest net return irrespective of whether the product was in the form required by the consumer. A noteworthy example is the case of 2 x 4's where mills found it more attractive to ship 2 x 8's and leave it to the retailer to arrange for the necessary ripping. This may have involved added expense which was borne by the consumer.¹ Labour shortages in some cases may have been responsible in part for the situation.

We heard in evidence that there was a tendency as the control period progressed for shippers to concentrate on the points where sales yielded the best return after deducting freight charges, while points with longer freight rates got less than their share. Measures were apparently taken wherever possible to alleviate such situations. For example, the Board ordered that shipments to a so-called "Designated Area" south of the Canadian Pacific Railway's main line in Saskatchewan and Manitoba would earn a larger export credit as an inducement to the mills to ship to that area, which was a longer freight haul.

Some mills located close to their market short-circuited normal channels by selling at retail to get the benefit of the higher ceiling price set at that level. Attempts to control this situation by restricting retail licences only to bona fide retail dealers were only partially successful.²

Such distortions were, of course, only in part a consequence of controls and to quite an extent are what might be expected in any event in a strong sellers' market.

Narrowed Retailers' Margins Under Price Control

Witnesses stated that in several areas the margins between wholesale and retail prices were squeezed below the percentages considered normal. Retailers in such areas were generally close to sources of supply and, at the time the maximum prices were established, were able to buy at prices below the ceiling. As demand increased, the prices at which they could purchase crept up to the ceiling while the retail ceiling itself remained unchanged. Due to the increase in sales volume enjoyed by the retail trade, and to the fact that adequate margins evidently were obtained in other building materials constituting a portion of their business, over-all profits were apparently not reduced to a point where relief by way of increased margins on lumber would have been warranted by over-all

¹Evidence, Royal Commission on Prices, pp. 1309, 1310.

²Cf. Annual Reports, Wartime Prices and Trade Board.

financial need. Another factor in narrowing the retailers' percentage mark-up under price control was the practice in many instances of allowing only the actual dollar and cent increase permitted at the manufacturing level to be passed on by the retail trade. A tendency to restore traditional percentage mark-ups, they stated, was to be expected, however, after price control was suspended.

Production Costs

Because of the large number of mills of varying sizes operating under widely different conditions, and the fact that logging and sawmill costs can not be segregated as against particular grades and dimensions, we found it difficult to determine average cost figures for the period under review which could be used as the basis for any general statement on the relationship of production costs to the trend of prices. A further consideration is that the high level of demand has led to the cutting of less accessible and inferior stands of timber where it was probably uneconomical to operate at the prices prevailing pre-war.

As an indication of the trend however, Table 186 indicates the cost of production, together with the selling prices prevailing on corresponding dates for one West Coast operator and one eastern producer.

TABLE 186

COSTS AND SELLING PRICES OF ONE WEST COAST LUMBER FIRM AND ONE
EASTERN PRODUCER OF LUMBER, 1939-1948

(in dollars per thousand board feet)

	Cost ^a	Wholesale Price		
		Domestic	United Kingdom	F.O.B. Mills United States
Company A, West Coast 2" x 4" Common B.C. Fir				
June 1, 1939	21.02	16.00	19.00	16.00
June 1, 1942	28.97	20.00		24.00
Dec. 1, 1946	42.91	24.00	39.00	69.50
Sept. 1, 1947	45.66	38.00	60.00	62.00
Sept. 13, 1948	58.59	63.00	60.00	68.00
Company B, Eastern Canada 2" x 4" Merchantable Spruce				
June 1, 1939	29.97	22.37		23.49
June 1, 1942	33.61	32.28	33.22	35.21
Dec. 1, 1946	50.97	41.75	54.96	54.60
Sept. 1, 1947	56.87	48.97	63.46	68.11
Sept. 13, 1948	67.01	59.95		73.48

^a) Cost shown represents average cost for all grades and dimensions.

Source: Evidence, Royal Commission on Prices, pp. 1588-89, 1661.

The significant points are not only the substantial absolute increase in costs but also the level of costs in excess of the controlled domestic prices which, as outlined above, were in effect subsidized by the export market.

Course of Wage Rates

Labour costs represent a high proportion of total costs of production in this industry. Evidence given by one West Coast manufacturer was that labour is between 50 per cent and 60 per cent of the cost of logs. From the time the log reaches the sawmill until it is shipped as finished lumber, labour is again a very high proportion of cost. The course of wage rates since 1939 in the lumbering and allied industries is shown by Table 187.

TABLE 187

INDEX NUMBERS OF WAGE RATES IN LOGGING, SAWMILL PRODUCTS,
PLANING MILLS, SASH, DOORS, ETC.

(Rates in 1939 = 100)

Year	Logging		Sawmill Products	Planing Mills Sash, Doors, etc.	General Average All Industry
	Eastern Canada	Western Canada ^a			
1941	114.8	110.8	115.0	120.0	113.1
1942	124.9	127.9	130.7	123.7	122.5
1943	142.0	147.5	143.8	134.9	133.7
1944	143.2	156.8	148.7	139.4	137.9
1945	151.4	160.5	157.5	147.2	141.8
1946	162.8	184.9	184.8	161.2	155.2
1947	188.3	220.8	215.7	180.2	173.7

^a) Index for logging western Canada based on rates on the Coastal area of British Columbia only.

Source: Department of Labour, Labour Gazette, Ottawa.

Noteworthy in the above table is the extent to which wages in the industry, especially in the sawmills and West Coast logging camps, have increased since 1942 in comparison with the general average for all industry in Canada.

The West Coast logging industry is a year-round operation; it is more highly mechanized; operating methods and consequently the various occupations are considerably different from those in eastern Canada. Average wage rates per day range from \$7.63 for "bullcooks" and "flunkies" to \$17.27 for "fellers" and "buckers", the latter being mostly on piece work. Lodging, but not board, except for cooks, is supplied in addition. A large proportion of the workers are covered by collective wage agreement. Since 1946, nearly all are on a 40-hour, five day week.¹

¹Labour Gazette, Department of Labour, Ottawa, June 1948.

In the east, logging operations as we have said, are more of a seasonal nature. For eastern Canada as a whole the average wage rates of time workers ranged from \$3.66 per day for "cookees" to about \$5.50 for "blacksmiths" and "cooks". Board and lodging with an average reported value of from 60 to 70 cents per day are provided by the employer in addition. Except in north western Ontario around the head of the lakes, workers are not fully organized and are not covered by collective agreements, so that wage rates tend to be less standardized than on the West Coast. Working hours are usually eight to ten hours per day, six days a week.¹

There was little evidence presented on the question of the efficiency of labour. It was stated by a representative West Coast manufacturer that performance per man hour had fallen during the war when many of the most active ages were drawn into the armed services, but that since the war it had risen.

PRICES SINCE SUSPENSION OF CONTROL

The wholesale price index on a 1935-1939 base had reached 250 when price controls were suspended on September 15, 1947. In the following year a further rise occurred bringing the index to 305 in August, 1948. The demand evidently was such that buyers were prepared to pay higher prices, and manufacturers evidently were motivated by a desire to raise their domestic selling prices at least to a point where they would cover production costs.

There is indication that the return to percentage mark-ups following decontrol increased retailers' margins in dollars and cents. There was a tendency for this increase to be accentuated where dealers whose percentage mark-ups had been squeezed under price controls reverted to their pre-control percentages.

The evidence presented by the sawmills has shown however, that the increase stopped short of the price level obtaining in the export market. It was represented that some of the companies for reasons of policy have endeavoured to exert a restraining influence on the rise in prices. This appears to have been only partly successful. Even in the case of the larger producers the sales of any one company represent only a small fraction of the total and could have little over-all effect.

The system of export quotas which has been continued in effect since suspension of price control also appear to have exercised a modifying influence on prices by ensuring reasonably adequate domestic supply.

CYCLICAL FLUCTUATIONS IN LUMBER PRICES

Lumber is one of this country's principal export commodities and its price is strongly influenced by the level of external prices. At the same

¹Labour Gazette, Department of Labour, Ottawa, June 1948.

time it is a commodity the demand for which is subject to sharp cyclical fluctuations. This was stated to us by Mr. H. R. MacMillan,

"I think the essential and important aspect respecting the rise in lumber prices is that lumber is a raw material which enters into the export trade. a raw material depending for its market chiefly on exports is susceptible of very rapid and sharp rises in price, and similarly very rapid and sharp drops in price. That has been the history of the lumber business and of some other bulk raw material commodities. When there is a shortage in the world, buyers hasten to buy, production has to be expanded and it goes up very rapidly. As soon as demand equals supply or supply equals demand, buyers become hesitant and prices come down. That does not apply to internal commodities to the same degree".¹

Sharp fluctuations in prices appear to have imparted a "feast or famine" character to the profit history of the lumber industry in Canada.

SUMMARY AND CONCLUSIONS

The lumber industry was chosen by us for scrutiny because lumber is one of the largest items entering into residential construction, and because its price appeared to have advanced to a greater extent than the prices of other building materials. In addition, lumber is essential in varying degrees throughout almost the entire range of industry. The manufacture and distribution of lumber and its allied products are of major importance both in domestic and external trade. The economic well-being of several sections of Canada is vitally dependent upon the continuing successful operations of the industry.

Factors in the advance in price since 1939 have been, primarily, the unprecedented demand in both the domestic and export markets and, secondarily, the steadily rising costs of production. Due to its essentiality, price increases were sanctioned during the period of emergency as incentives to maximum output. However, from the latter part of 1943 until early in 1947 the operation of price control effected a reasonable degree of stability, in the face of enormous pressures. This was of particular benefit to housing construction in the critical years immediately following the war. This period was marked by a steady rise of prices in world markets, which reached levels substantially above the controlled Canadian prices. During 1946, and subsequently, production costs rose materially, following wage increases, and became generally higher than the ceiling prices in force. The overall earnings of the industry, nevertheless, were maintained by reason of the higher return on exports. In effect, therefore, the Canadian market was subsidized by foreign buyers. In the spring of 1947, increases in maximum prices were allowed both to induce an enlarged output of items required for the housing program, and to narrow the spread between the domestic and export price levels in anticipation of decontrol.

¹Evidence, Royal Commission on Prices, p. 1536.

Approximately three-quarters of the increases which have taken place in lumber prices since 1939 already had occurred by September, 1947, when price control was suspended. At that time, Canadian ceilings at the mill level were still some \$15 to \$20 per thousand feet below prevailing prices on shipments to external markets. Prices following decontrol did not generally rise to the export level. This may be perhaps attributed to some measure of self-control on the part of the industry, to buyer resistance to higher prices and to the influence of export controls.

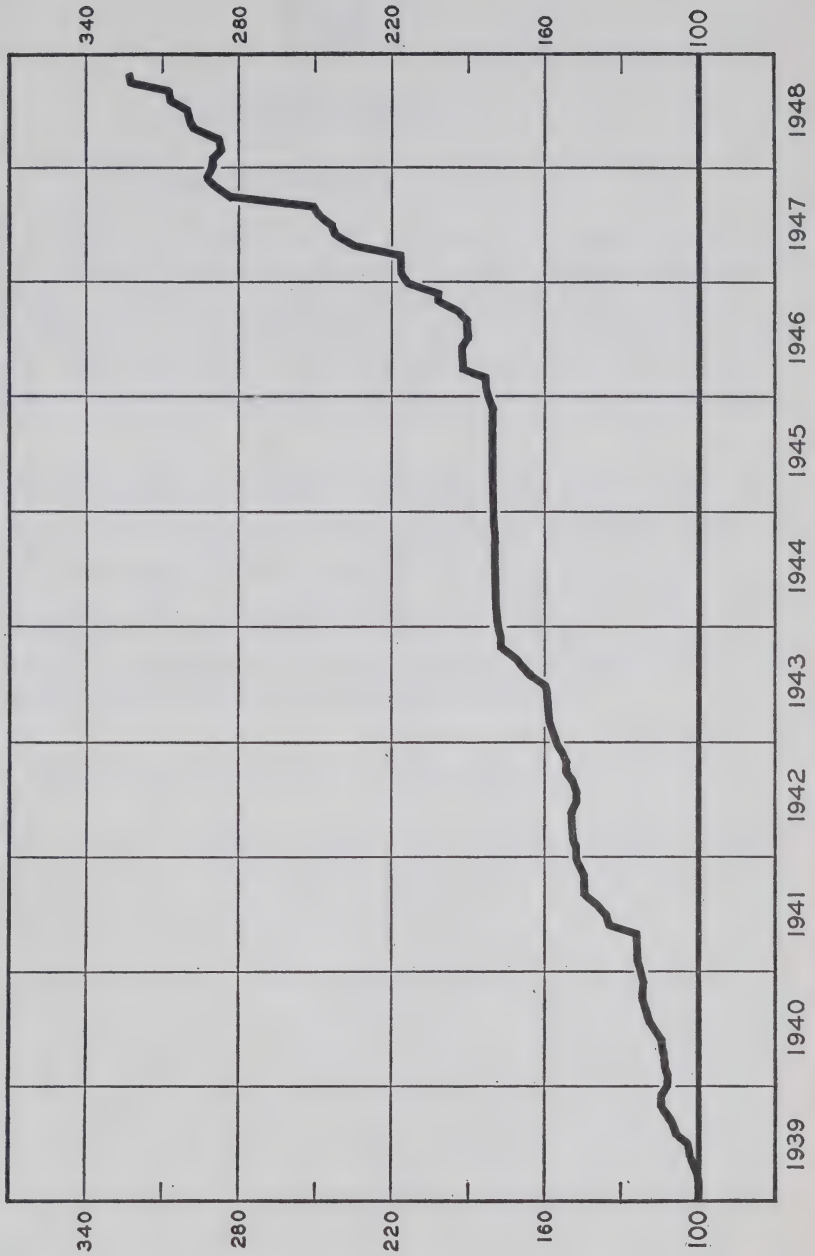
There are a very large number of producers and distributors in this industry and the quantities of lumber sold by even the larger companies represent relatively small fractions of the total output. There is little evidence to indicate widespread attempts by sections of the trade to raise or maintain prices by agreement; and there does not appear to be any system of price leadership. In this connection, it is worthy of note that an effort by one of the largest concerns on the West Coast to exercise a restraining influence on the upward course of domestic prices in the period following suspension of control had no apparent effect on the pricing policies of other mills.¹

We were impressed by the absence of a clear pattern in the organization, and pricing policies of the industry which embraces a large number of enterprises of widely varying types and sizes. There are considerable differences in the methods of operation, not only as between sections of the country. Frequently, differences exist between businesses in the same section and same level of trade.

The matter of grading offered special difficulties. In particular, the apparent lack of uniformity in the quality of spruce lumber for example being marketed as "merchantable" grade in parts of eastern Canada made it difficult to draw comparisons between the prices being charged by different dealers in that area.

¹Evidence, Royal Commission on Prices, p. 1523.

CHART XIX
LUMBER WHOLESALe PRICE INDEX
(1935-39 = 100)



Source: Dominion Bureau of Statistics, Ottawa.

12

CONSUMER CREDIT

WHAT IS CONSUMER CREDIT?

BECAUSE consumer credit can be a factor in rising prices, we decided to examine this question, and to call certain witnesses to appear before us. Consumer credit may be defined as the advance of goods and services, for which repayment is made over a relatively short period of time. The transaction is customarily attested by a negotiable instrument such as a conditional contract and carries some form of finance charges.

Any attempt to measure the effect of consumer credit on the Canadian economy is handicapped at the outset by the meagre supply of reliable statistics. Only very recent figures are available at all. The reaction of consumer credit to the measure of regulation applied under the Wartime Prices and Trade Board is especially important since data were compiled for the period of control. Longer term studies carried on in the United States may also be used as a background against which the scanty Canadian statistics may be evaluated.

HOW CONSUMER CREDIT CAN BE MEASURED

Ideally, the most satisfactory method of measuring consumer credit and deducing trends would be to survey consumers themselves. Under present conditions no such figures are available with the result that we must turn to the institutional sources of consumer credit.

Because the institutions which extend credit do not always keep records which clearly differentiate between producer and consumer credit, or between short-term and long-term loans, some overlapping of figures into related fields is inevitable. This will be partly counteracted by the omission of several sources of consumer credit which were not available, such as pawn broker loans, philanthropic loans, loans from relatives and friends, illegal money-lending and service credit. The important consideration is whether such loans increase demand for consumer goods and so create inflationary pressures. A further obscurity exists in the credit extended to those groups of consumers whose household goods are used partially for business purposes, such as the automobile of a physician, the laundering facilities of a housewife who 'takes in washing', the tools and materials of the hobbyist who sells a proportion of his handiwork.

A breakdown of consumer credit by source or by the lending institution follows and is the most direct approach to the problem of measurement and definition.

- a) Retail consumer credit which takes two main forms:
 - (i) retail instalment credit
 - (ii) retail charge or open account credit
- b) Sales finance credit by sales finance or acceptance companies which assists the consumer in the purchase of durable commodities such as motor vehicles and major household appliances.
- c) Personal loans, or cash credit which is extended to consumers by
 - (i) the chartered banks, secured and unsecured loans to individuals
 - (ii) small loan companies
 - (iii) licensed money-lenders
 - (iv) life insurance company loans
 - (v) credit unions (Caisses Populaires)
 - (vi) other sources for which no estimates have been made, include pawn brokers' loans, philanthropic societies, loans from relatives and family, illegal money-lenders, etc.
- d) Service credit, extended by the performance of services for consumers by doctors, dentists, hospitals, repair shops, utilities services, etc. which will be paid for at a later date either in a lump sum or by instalments.

Before making a detailed analysis of consumer credit, we have thought it well to examine the regulations over consumer credit as administered by the Wartime Prices and Trade Board. To reduce the effective demand for commodities in scarce supply, the Wartime Prices and Trade Board introduced the first consumer credit order on October 14, 1941 (Order 64). In the months immediately following, regulations were changed frequently by the introduction of further orders which refined and extended credit regulations. These early orders dealt largely with selected commodities, particularly household durables purchased on the instalment plan.

The basic principles were to set minimum down payment on goods purchased on instalment plans and to limit periods over which repayment could be made. At first there were many complaints from the trade that these controls would strike a heavy blow at the volume of business but before many months had passed, and scarcities had struck into almost every commodity group, merchants came round to the view that the regulations were fair and served to limit demand for scarce goods as well as to reduce distribution costs.

In February, 1943, after several interim orders (Order 75, December 30, 1941; Order 87, January 19, 1942; and Order 161, August 1, 1942), a comprehensive set of regulations governing consumer credit was promulgated as Wartime Prices and Trade Board Order 225, effective February 1, 1943. This order which was to serve for the following two years brought all commodities with a few minor exceptions under control,

including food and fuel. The credit period on instalment accounts was shortened to 10 months when the amount financed was under \$500 and to 15 months for amounts over \$500. The minimum down payment on all goods was set at 33 1/3 per cent of the retail price. All charge accounts were to be paid by the 25th of the month following that in which the purchase had been made.

Rulings and directives from February, 1943, were consolidated into Order 471, effective early in January, 1945. The major points added were restrictions on advertising of credit facilities and of loans, and the removal of fuel from consumer credit controls. In January, 1946, revision was made to assist servicemen in the use of re-establishment credit to purchase furniture and household equipment.

All consumer credit controls under Wartime Prices and Trade Board administration were dropped on January 13, 1947.

EXISTING LEGISLATION ON CONSUMER CREDIT

Canada

Since consumer credit regulations were revoked in January, 1947, only one province has enacted legislation controlling consumer credit. The province of Quebec enacted the Quebec Instalment Sales Act which became effective on August 15, 1947. Its main provisions include a minimum down payment of 15 per cent for consumer goods with from six to 24 months to repay, depending upon the amount of the unpaid balance. A maximum interest rate of three-quarters of one per cent of the total of the deferred payment is charged each month of the contract term. Certain goods are excluded such as machines, boats and marine equipment, books and motor vehicles. The Act applies only to sales of \$800 or less. The Act becomes effective only in cases where a formal sales contract in conformance with its provisions has been made between vendor and purchaser.

According to evidence presented at the hearing, British Columbia has certain legislation on consumer credit which may be made effective by the Lieutenant-Governor-in-Council. A Canadian Retail Federation bulletin states that Ontario and Saskatchewan have drafted bills for consumer credit control, but that legislative action on these is not contemplated.¹

United States

On August 18, 1948, the Board of Control of the Federal Reserve System issued Regulation W on "Consumer Instalment Credit" to become effective September 20. Regulation W is concerned with various kinds of consumer goods and instalment loans.

The United States legislation is more comprehensive than the Quebec legislation for the commodities covered and imposes more severe regulations of credit in the form of larger down payments and the relatively shorter term required for repayment of indebtedness. The inclusion of

¹Evidence, Royal Commission on Prices, p. 1949.

automobiles under the regulation brings in the major single consumer commodity omitted by the Quebec Instalment Sales Act. It resembles the regulations which were in effect during the war years.

CONSUMER CREDIT TRENDS IN THE UNITED STATES

Consumer credit statistics in the United States are published by the Board of Governors of the Federal Reserve System in the "Federal Reserve Bulletin" by the United States' Department of Commerce and in the "Survey of Current Business".

Although the American classification differs from that employed by the Dominion Bureau of Statistics, the components may be reassembled and compared by groups with Canadian trends. There has not been sufficient investigation of the United States series to learn the factors included as consumer credit and those excluded, but trends may be compared with the expectation that the same basic forces were at work.

From September 1, 1941 to June, 1948, total consumer credit outstanding in the United States rose from \$10 billion to \$13 billion, the highest level of outstandings on record, an increase of 40 per cent. In 1944 consumer debt had dipped below five billion dollars, its lowest wartime point, but gained rapidly from 1946 to 1948.

CONSUMER CREDIT DURING THE WAR AND THE EFFECT OF WARTIME PRICES AND TRADE BOARD ORDERS

The Wartime Prices and Trade Board regulations covered only the two main branches of consumer credit, instalment credit and charge or open accounts. These applied to department, clothing, fur, furniture and jewellery stores. The cash credit sector which covers personal loans was not considered, nor were loans from acceptance corporations or service credit.

In estimating the effect of regulations on consumer credit, it must be remembered that other influences were at work which in themselves would tend to reduce consumer credit. For instance, the increases of disposable income of consumers would be expected to help reduce credit purchases and to reduce the amount of goods purchased on time payment plan. However, the report of the Wartime Prices and Trade Board for 1946 stated:

"As noted in previous annual reports of the Board, consumer credit regulations had served a useful purpose during the war, both by helping to place some limit on the excessive demand for those consumer goods and services frequently bought on a credit basis and by contributing to a high proportion of cash sales with resulting savings to distributors".¹

In general, as will be seen in Table 188, from 1941 to 1945 the proportion of cash to total sales increased in the five kinds of businesses covered. Instalment sales decreased and charge account sales remained fairly stable in relation to total sales.

¹Annual Report of the Wartime Prices and Trade Board, 1946, p. 9.

RETAIL CONSUMER CREDIT

When an article is purchased on an instalment plan, a conditional sales contract is usually signed.

Retail charge account or open account credit takes many varying forms but is ordinarily an account which must be paid into each month, within 30 days following purchase or early in the month following that in which the purchases were made.

This sector of consumer credit is the most important of the several sources named. Total accounts outstanding, according to the 1941 Census of Merchandising and Services, amounted to \$240,269,200. By June 30, 1948, the amount was about \$311,000,000. Because of the paucity of information, statistics must be limited to those of the last general census of 1941 and from the latter half of 1945 to the first half of 1948. Wartime surveys were not of a nature which would allow them to be coordinated with those for any other period.

In 1947 and 1948 the Dominion Bureau of Statistics made two initial attempts to establish statistics from which trends in consumer credit could be deduced. We understand this is now being done on a quarterly basis. Ten kinds of retail businesses were selected by the Bureau because of the relatively large proportion which instalment credit business was of total sales according to the 1941 Census. These include:

Department Stores	Household Appliances and Radio
Men's Clothing Stores	Stores
Women's Clothing Stores	Furniture Stores
Family Clothing Stores	Hardware Stores
Furriers	Jewellery Stores
	Motor Vehicle Dealers

Together, the 10 trades represented 40 per cent of all credit sales, 72 per cent of instalment sales and 46 per cent of accounts outstanding when the last Census of Merchandising was taken in 1941.

CHART XX

RETAIL CONSUMER CREDIT : INDEXES OF SALES AND RECEIVABLES

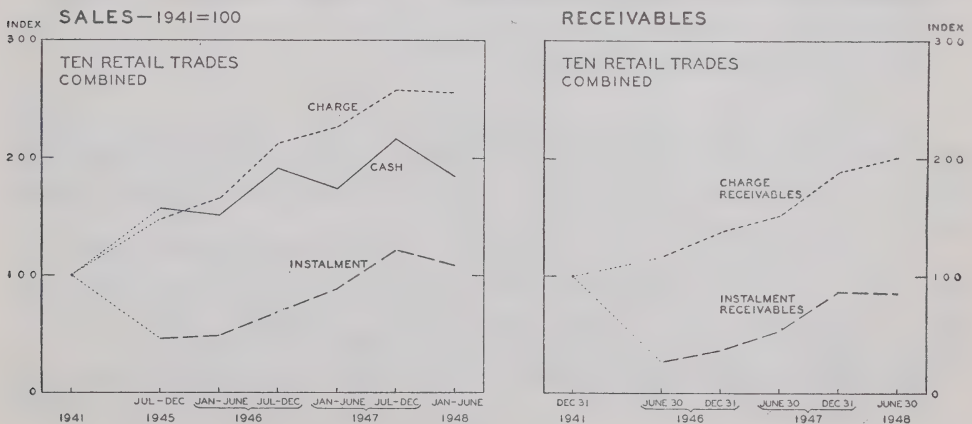


Chart XX shows the trend in sales and receivables in the 10 trades combined. From 1941 to the latter half of 1947 sales in the combined trades doubled. Cash sales had risen slightly more than the total, but instalment sales were up only 21.5 per cent. Charge account sales which made up about one-fourth of the total had multiplied two and a half times.

Accounts receivable at the middle of 1948 were 30 per cent above the total on December 31, 1941. Charge accounts outstanding had doubled while instalment receivables were 15 per cent below the final figure for 1941.

From the middle of 1946 to the end of 1947 both instalment and charge receivables gained rapidly.

Proportion of Cash Instalment and Charge Account Sales to Total Sales.

In the combined trades, cash sales made up 60.2 per cent of all sales in 1941. (Table 188 below). In 1945, this proportion had risen to 67.1 per cent, then fell back steadily until in the first six months of 1948 it had reached a point slightly above the 1941 figure, 60.5 per cent of total sales.

TABLE 188

CASH AND CREDIT SALES IN RELATION TO TOTAL SALES
TEN RETAIL TRADES COMBINED

(percentage of total sales)

	Cash Sales	Instalment Sales	Charge Account
1941 Average half-year	60.2	21.7	18.1
1945 July-December	67.1	7.9	25.0
1946 January-June	66.1	8.7	25.2
July-December	65.3	9.2	25.5
1947 January-June	62.6	12.2	25.2
July-December	62.6	13.4	24.0
1948 January-June	60.5	13.8	25.7

Source: Dominion Bureau of Statistics, Ottawa.

The drop of 2.7 per cent in proportion of cash sales to total sales from the latter half of 1946 to the first half of 1947, is greater than the decrease to the first half of 1948. It is significant that consumer credit controls were removed in January, 1947.

In 1941, instalment sales in the 10 trades amounted to almost 22 per cent of all sales. This proportion had fallen to less than eight per cent in the latter half of 1945, then gained gradually until in the January-June period of 1948 it had reached almost 14 per cent.

In 1941, charge account sales were just over 18 per cent of all sales in the combined store totals. By the latter half of 1945, this proportion

had risen to about 25 per cent and had not changed appreciably in succeeding periods.

Interest Charges on Retail Credit Accounts.

No over-all data are available on rates charged for the credit services extended by retailers. The Quebec Instalment Sales Act limits such charges to $\frac{3}{4}$ per cent per month for the unpaid balance. Evidence before us indicated that one furniture retailer had recently reduced his rates from $\frac{3}{4}$ per cent to $\frac{1}{2}$ per cent per month on instalment balances unpaid, because of competition.¹ Several departmental stores reported charges in the vicinity of $\frac{1}{2}$ per cent per month on accounts receivable.

Sales Finance Credit.

This sector comprises those business organizations, commonly known as acceptance companies, which are engaged in the financing of the sales of a wide range of consumers' and producers' goods.

According to the 1941 Census of Merchandising and Services Establishments, the 90 finance companies operating in Canada at that time purchased \$100,276,962. Of this total 77.1 per cent or \$77,325,525 was for consumers' goods. Since the financing of passenger cars made up 87 per cent of the total of all retail consumers' goods financed in 1941, sales finance may be examined on the basis of this aspect.

The Trends in Sales Finance Credit.

In 1941, sales finance credit amounted to just over \$100,000,000 of which 67 per cent was passenger vehicle paper. On December 31, 1941, balances outstanding for consumers' goods were \$48,854,097, or 63.2 per cent of the consumer goods paper purchased during the year.

TABLE 189
SALES FINANCING OF CONSUMERS' GOODS
(millions of dollars)

	Retail Paper Purchased		Balances Outstanding on Consumer Goods December 31
	Passengers Cars	Total Consumer Goods	
1941	67.3	77.3	48.9
1946	18.1	20.8	13.1
1947	62.1	71.3	45.1
1948 first nine months	65.7	75.6	
Percentage increase first nine months 1948 over first nine months 1947	+54.1	+54.1	

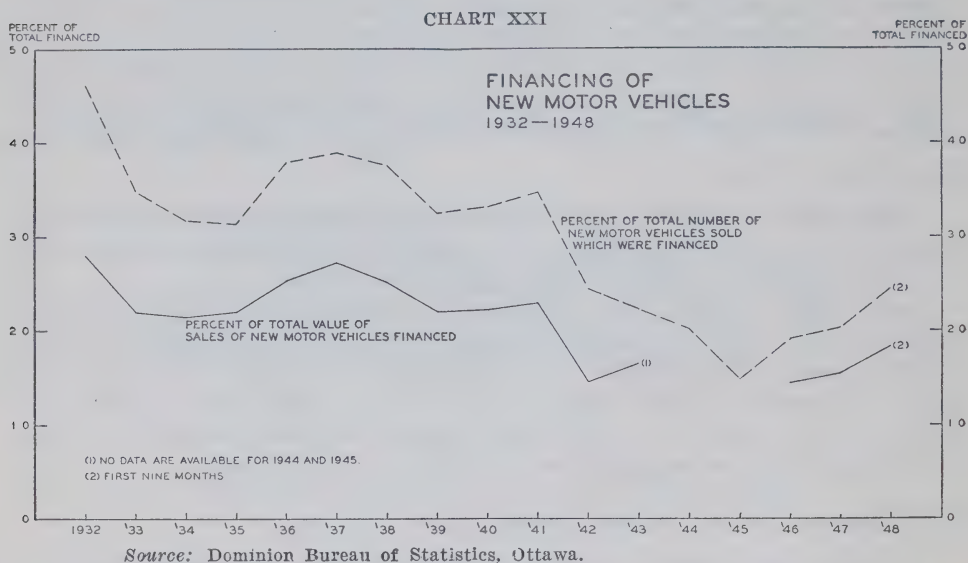
Source: Dominion Bureau of Statistics, Ottawa.

In 1947, with the resumption of production of motor vehicle and other consumer durables, retail paper purchased more than tripled from 1946.

¹Evidence, Royal Commission on Prices, p. 1938.

Financing Compared with Sales.

The number of new vehicles financed as a percentage of the number sold is shown on Chart XXI. Unfortunately, there are no known available sources of used car sales figures, so comparison must be confined to new vehicle sales and financing.



One principal conclusion is evident from Chart XXI. Like retail consumer credit, following a period of very little financing during the war years, the number of vehicles financed and the total amount of financing were on the increase, but the proportion of cash sales was well above pre-war levels in the early years of the war when motor vehicles were still available to consumers.

Rates of Sales Finance Credit Companies

It was emphasized by witnesses before us that the sales finance business was highly competitive and for this reason rates were subject to the pressure of competition.¹ In the case of automobile financing, the credit costs to the purchaser involve the financing charge plus the cost of insurance on the vehicle, plus in some cases insurance on the life of the purchaser. The insurance charges in most cases include provision for collision. These charges are added to the total value of the contract which is paid off in equal monthly instalments. Charges varied as between new and used cars, and with the amounts financed.

The term discount and effective rate are used frequently below and we define them as follows: a discount rate is a deduction from a loan or an addition to a finance contract representing interest paid in advance. The effective rate is the amount actually earned or charged on a per annum basis on a loan or finance contract. The finance charge or interest

¹Evidence, Royal Commission on Prices, p. 1919.

rate will vary greatly with the terms of repayment. For instance, if a loan of \$120 has a finance charge of six per cent discounted and the loan is to be repaid in one payment after one year, then the borrower receives \$120 minus the interest in advance (\$7.20) or \$112.80, and repays \$120 at the end of one year. He actually has the use of \$112.80 for which he pays \$7.20, an effective rate of 6.38 per cent. If the loan with interest is repaid in 12 equal monthly instalments, then he has on an average the use of only one-half of the amount received over the year and so pays an effective rate of 12.77 per cent.

Discount rates on new cars run from about 7.25 per cent when the balance owing is around \$2,000 to 7.5 per cent for amounts near \$500. On used cars the discount rates run from about 8.5 per cent when the amount of the contract is over \$1,000 to 12 per cent when the contract is above \$500. Contracts are made on a monthly repayment basis, almost without exception.

The companies furnish charge tables which have monthly payments given for various amounts over various periods of time allowed for the amortization of the contract. The above percentages are approximate.

It should be noted that these rates are discount rates charged on debts which are amortized by equal monthly payments. When they are worked out on a per annum effective basis they are about twice as high as stated. There could be some doubt that the consumer is sufficiently informed as to the effective rates charged or the advantage of any particular contract to be able to judge between one company and another. If finance charges were stated as effective rates rather than as discount rates, the consumer would be able to choose the credit most advantageous to him.

PERSONAL LOANS OR CASH CREDIT

The major institutional sources in Canada extending cash credit or personal loans to individuals are the chartered banks, small loan companies, licensed money-lenders, life insurance companies and credit unions.

The Chartered Banks

Loans to individuals by the 10 Canadian chartered banks are of two kinds, loans to individuals against approved stocks and bonds and loans to individuals under the Personal Loan Plan or loans to individuals not otherwise classified. The former represents item 4c and the latter items 13b and 13c respectively in the annual statistical return of the chartered banks to the Inspector-General of Banks, as required under the Bank Act.

Balances outstanding of secured loans are presented in Table 190 together with those for other loans to individuals.

This category takes in chartered bank loans made under personal loan plans, and other unclassified, unsecured loans to individuals. The item (item 13) as reported by the chartered banks to the Inspector of Banks includes a proportion of commercial or business loans (item 13a)

which has been estimated and removed from the balances outstanding reported in Table 190.

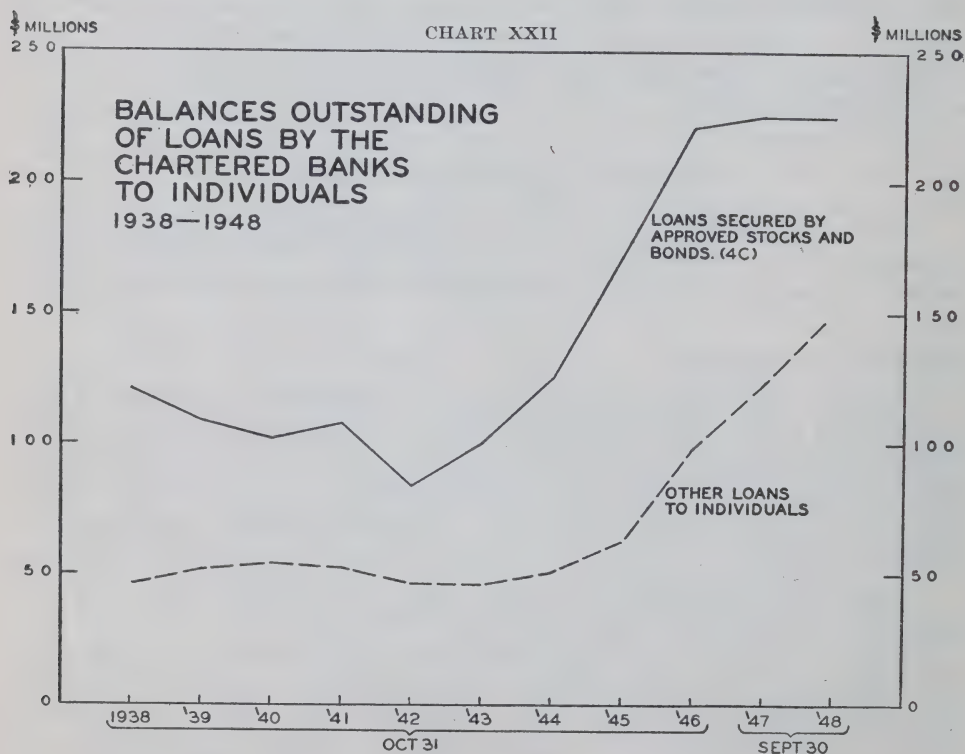
TABLE 190

BALANCES OUTSTANDING OF LOANS BY CHARTERED BANKS TO INDIVIDUALS

(millions of dollars)

Year	Loans Secured by Approved Stocks and Bonds Item 4c	Other Loans (Estimated by removing loans to individuals for business purposes—Item 13a from Total of Item 13)	Total of Secured and Other Loans
October 31, 1938	120.5	46.3	166.8
1939	109.4	51.7	161.1
1940	102.2	53.5	155.7
1941	108.1	52.1	160.2
1942	83.7	46.5	130.2
1943	100.0	46.1	146.1
1944	125.0	50.9	175.9
1945	172.5	62.2	134.7
1946	220.8	97.0	317.8
September 30, 1947	225.8	123.1	348.9
1948	225.1	146.6	371.7

Source: Dominion Bureau of Statistics, Ottawa.



After a steep upswing in 1943, shown in Chart XXII, the volume of outstandings rose sharply until 1947 when balances gained very little over 1946. By September 30, 1948, loan balances had fallen off slightly from the previous year. On the other hand, outstandings of the "other loan" category continued to rise in 1947 and 1948 after an initial heavy gain in 1946 from 1945. The growth in outstandings was extended through 1947 and 1948 despite cut-backs in advertising appropriations by two of the major banks, the Bank of Montreal in the summer of 1946¹ and the Canadian Bank of Commerce at the beginning of 1948.² Both of these banks felt that owing to the high levels of employment and wages little would be gained by emphasizing this phase of business.

From evidence presented, it was clear that loans made under the "other loans" category to individuals were used largely for consumer goods and services. The representative of the Canadian Bank of Commerce stated to us that loans for medical expenses, home improvements, clothing and cars made up 45.6 per cent of the total.³ The percentage for Bank of Montreal loans for similar purposes amounted to 44 per cent. It was further indicated that several of the remaining categories undoubtedly include a substantial consumer component such as consolidation of debts, outside loan liquidation, travel and education, and the miscellaneous group.

Evidence before us indicated that the personal loan business of the Canadian Bank of Commerce differed from that of the other chartered banks in several respects. In establishing a special department to deal with personal loans, this institution secured a portion of the loan business which would not ordinarily be handled by the chartered banks. A considerable volume of personal loans had been made to borrowers who had been refused loans by other banks, it was stated by an official of the Bank of Commerce.⁴ Accommodation is given to wage-earners and salaried persons who do not have sufficient credit resources or assets to borrow through the normal facilities in the branch offices of the chartered banks.

Rates of Interest

Personal or individual unsecured loans made through ordinary banking channels bear an interest rate of between five per cent and six per cent per annum. These are not discounted, but effective rates of interest. The Bank Act of 1944 (Section 91)⁵ is explicit as to allowable rates.

Loans made through the Personal Loan Department of the Canadian Bank of Commerce carry a six per cent discount rate and are amortized by equal monthly payments. Evidence before us by the representative of the Canadian Bank of Commerce brought out the details of the method whereby this chartered bank charges an effective rate of 11.782 per cent per annum on personal loans through the department set up for this

¹Evidence, Royal Commission on Prices, p. 1999.

²Ibid., p. 1994.

³Ibid., p. 1992.

⁴Ibid., p. 1995.

⁵Ibid., pp. 1988-93.

purpose. He explained that repayment is not made directly on a monthly basis, but on receiving the loan the borrower agrees to deposit each month in a separate savings account, an amount equal to the monthly payments required to repay the loan.¹ Interest at 1½ per cent per annum is allowed on the deposits. Therefore the borrower has the use of only half the amount, less insurance, interest and the loan charge over the period. While the discount rate is therefore six per cent plus charges and insurance, the actual effective rate paid by the borrower is over 13 per cent per annum minus the 1½ per cent per annum allowed on the deposits. It is believed that none of the other chartered banks have taken advantage of such a technique in requiring more than the maximum rate on loans as stated in the Bank Act.

Small Loan Companies and Licensed Money-Lenders

Small loan companies and money-lenders operate under the supervision of the Department of Insurance which administers the Small Loans Act, 1939. A small loans company must be incorporated by special Act of Parliament. A money-lender refers to any person other than a chartered bank who carries on the business of money lending or advertises himself or itself in any way as carrying on that business but it does not include a registered pawn-broker as such. In terms of service to the public and rates, there is no distinction between the two kinds of business organization. Under the terms of this act a "loan" is limited to sums of \$500 or less.

Maximum rates or "costs" to borrowers are, for the case of licensed lenders, two per cent per month on loans in which repayment is made in 15 months or less and for those not licensed 12 per cent per annum. If the loan made by licensed lenders is to run over 15 months, the rate falls off gradually as the term of repayment is extended.

Officials of the Department of Insurance visit and inspect the operation of small loan companies and licensed money-lenders each year.

On March 31, 1948, there were four small loan companies and 54 money-lenders, a total of 58 licensees operating under the provisions of the Small Loans Act.

TABLE 191

LOANS MADE BY LICENSEES UNDER THE SMALL LOANS ACT AND BALANCES OUTSTANDING AT THE END OF THE YEAR, 1940-1947

(thousands of dollars)

Year	Small Loans Made	Balances Outstanding December 31	Ratio of Small Loans Made to Balances Outstanding	Balances Outstanding Other than Small Loans	Total Balances Outstanding
1940	20,414	9,851	2.07	5,304	15,155
1941	23,039	11,745	1.96	4,908	16,653
1942	25,596	13,169	1.94	3,547	16,716
1943	29,706	15,000	1.98	3,694	18,694
1944	35,275	17,333	2.04	4,282	21,615
1945	41,891	20,375	2.06	6,476	26,851
1946	58,382	29,617	1.97	11,416	41,033
1947	78,463	36,842	2.13	19,510	56,352

Source: Department of Insurance, Ottawa.

¹Evidence, Royal Commission on Prices, p. 1904.

The almost constant ratio of small loans made to balances outstanding is one of the important aspects of the above table. This means that the period of repayment has shown very little variation.

Of the \$36,842,000 outstanding at the end of 1947, one-third or \$12,417,000 was on the books of money-lenders and the other two-thirds on those of small loan companies. On December 31, 1947, there were 282,794 accounts making up the total of balances outstanding on small loans, with an average indebtedness per account of about \$130.

As was the case with the personal loans made by the chartered banks, probably the bulk of advances are for the purchase of consumer goods and services. The Household Finance Corporation submitted in evidence that loans made were for medical, dental and hospital bills, home repairs and furnishings, consolidation of overdue bills, business needs, and the purchase of fuel in advance of need.¹

Rates of Interest

That the small loan business is highly competitive was stated in evidence by Mr. A. P. Reid, of Household Finance Corporation.² In Canada, prevailing rates on small loans vary from $1\frac{1}{2}$ to two per cent per month. At the end of 1947 the loan rate was raised to $1\frac{3}{4}$ per cent from $1\frac{1}{2}$ per cent by the leading firm, a move which was followed by competitors in the same field. The $1\frac{3}{4}$ per cent per month finance charge is an effective rate of 21 per cent per annum.

Although one authority³ claims that interest rates or finance charges are not a deterrent to borrowing by consumers, there is some doubt that consumers are aware of the rates charged. Rates are presented on a per month basis, as a table of monthly payments, which the consumer finds difficult to convert to a per annum basis.

Whether the rates charged are sufficient to carry the costs of operating such businesses is not the question. There is little doubt that the risks taken are greater than those accepted by the chartered banks, and that resulting investigation and collection costs are higher. Whether the public is fully aware of the alternative open to them to borrow, and of the actual per annum rate charged is of more significance.

Life Insurance Loans

Policy loans are made against the reserves of policies. Statistics show that there has been a lessening call on insurance savings as security against loans from 1938 to 1947, in terms of the percentage of reserves.

¹Evidence, Royal Commission on Prices, p. 1911.

²Ibid., p. 1919.

³Gottfried Habeler, *Consumer Instalment Credit and Economic Fluctuations*, Chapter I.

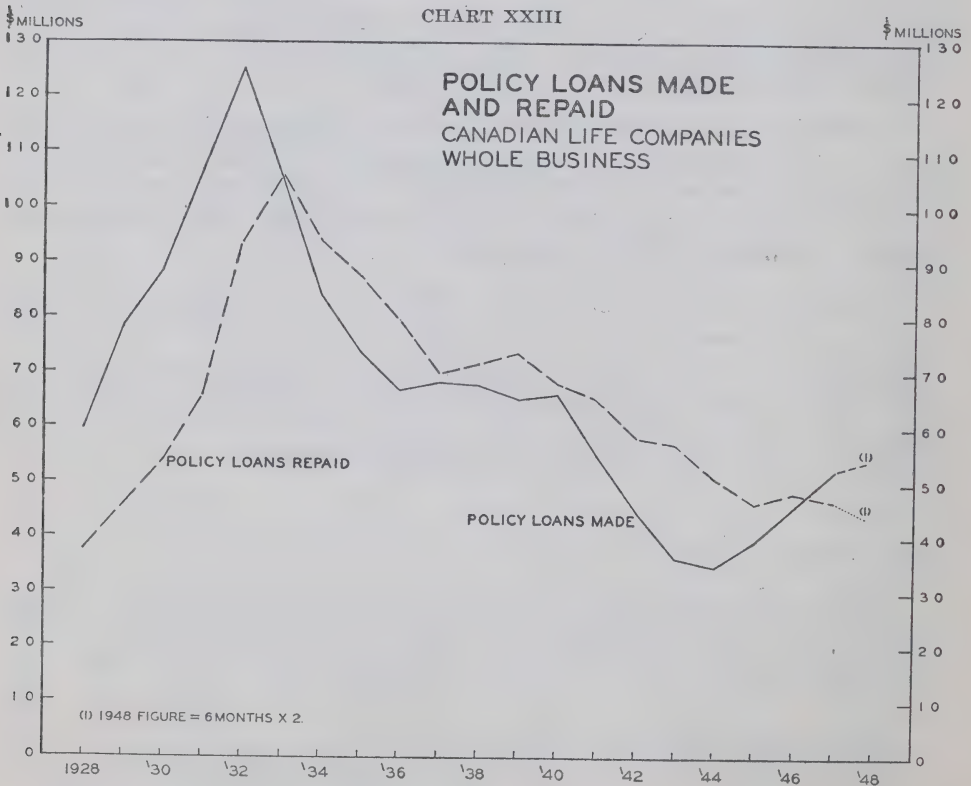
TABLE 192
POLICY LOANS OUTSTANDING AND POLICY RESERVES OF CANADIAN,
BRITISH AND FOREIGN COMPANIES
1938-1947

(thousands of dollars)

Year	Loans Outstanding (December 31)	Reserves December 31	Percentage Loans to Reserves
1938	227,695	1,444,740	15.8
1939	219,081	1,499,968	14.6
1940	210,258	1,557,172	13.5
1941	200,154	1,632,435	12.3
1942	188,592	1,724,742	10.9
1943	172,756	1,840,876	9.4
1944	159,369	1,969,271	8.1
1945	152,133	2,114,809	7.2
1946	149,646	2,288,831	6.5
1947	152,293	2,459,387	6.2

Source: Department of Insurance, Ottawa.

Chart XXIII demonstrates the trends in loans made by and repaid to Canadian life companies, together with the two major methods of meeting loans, by surrender, and by repayment prior to the termination of the policy.



Source: Department of Insurance.

The value of new loans dropped between 1941 and 1944, but at the end of World War II the trend reversed, and the value has since continued to rise. The number of loans repaid has lagged behind the number of new loans made, and in the period 1945-1948 the lag has become more pronounced. However, this tendency is relatively insignificant in view of the low level of loans being made and the low percentage of policies being surrendered to repay loans made against their reserves.

Credit Unions

The credit union which is a co-operative form of organization provides banking facilities for its members including savings accounts and loans. Farm loans and mortgages make up a large proportion of the business. In 1947, for the first time, provincial reports to the Department of Agriculture at Ottawa, included balances outstanding on loans as apart from mortgages. However, figures for earlier years are available from La Federation Des Caisses Populaires Desjardins, a group of 1,021 chartered credit unions with 486,836 members in 1947. Assets of the Federation made up about 80 per cent of the total assets of Canadian credit unions in 1947.

A certain proportion of loans made to individuals by credit unions represents business or agricultural needs, but since these components are not known, the totals of personal loans are estimated and presented in the following table. This projection is based on the trends in personal loans of the Desjardins Credit Union which does approximately 80 per cent of the credit business of all credit unions.

TABLE 193

ESTIMATED PERSONAL LOANS OUTSTANDING OF CREDIT UNIONS 1941-1948 IN CANADA

December 31	Millions of Dollars
1941	9.6
1942	10.4
1943	14.9
1944	18.8
1945	24.8
1946	31.9
1947	42.1
June 30, 1948	47.3

Source: Dominion Bureau of Statistics, Ottawa.

The sole source of information on loan rates charged by credit unions comes from the Desjardins Credit Union. The charge of five per cent per annum on personal loans has been in force from 1939 to 1948.

SERVICE CREDIT

There are no existing adequate measures of consumer service credit in Canada. We were thus unable to inquire into this aspect of credit.

SUMMARY AND CONCLUSIONS

Table 194 brings together the consumer credit statistics of balances outstanding. The total of commodity¹ and cash credit outstanding in Canada at the end of 1941 was \$675,900,000. By the end of 1947, the amount had risen to \$947,500,000, an increase of 40 per cent. By June 30, 1948, the total was estimated at slightly over one billion dollars, 50 per cent above December 31, 1941.

In 1941, commodity credit made up 42 per cent of the total of \$675,900,000 outstanding, but by the end of 1946 the proportion had dropped to 27 per cent. With the steady gain in production of consumer durables, commodity credit receivables rose to over 37 per cent of the total consumer credit outstanding by the middle of 1948.

The Factors Causing Changes In Consumer Credit.

Factors which have resulted in rapid growth of outstanding and new credits may be cited as follows:

- a) The desire of everyone for a higher standard of living in the present.
- b) An increase in the production and use of consumer durables, which got its first impetus in the twenties and again in the late thirties.
- c) Growth of the credit service to consumers of the retail trade, lending and financing institutions particularly the small loan companies, and credit unions in Canada. A further factor was the entrance of the chartered banks into the personal loan field, following the lead taken by the Canadian Bank of Commerce.
- d) A gradual alteration of consumer attitude toward the use of credit. The financing of the purchase of consumer goods "on time" or by borrowing funds has become an accepted procedure. Personal debt has ceased to be the bogey it was earlier.

These factors must be considered along with the movement of income savings, and the production and prices associated with the rise and fall of business activity. In the United States, the above influences were at work particularly in the twenties and, since then, with the exception of the small loans business, the business cycle has been effective in producing fluctuations.

¹Commodity Credit as defined by the Dominion Bureau of Statistics contains both retail consumer credit and sales finance credit

TABLE 194
BALANCES OUTSTANDING, CONSUMER CREDIT, CANADA
1941-1948
(millions of dollars)

	Balances Outstanding							Percentage Changes		
	1941 Dec. 31	1942 Dec. 31	1943 Dec. 31	1944 Dec. 31	1945 Dec. 31	1946 Dec. 31	1947 Dec. 31	1948 June 30	Dec. 31 1946-1947	Dec. 31 1947-1948
Commodity Credit										
Retail Consumer Credit	240.3					186.2	302.7	311.0	- 22.5	+ 26.0
Sales Finance Credit	48.9					13.1	45.1	69.5	- 73.2	- 7.8
Total	289.2					199.3	347.8	380.5	- 31.1	+ 20.3
Cash-loan Credit										
Chartered Banks, secured loans	108.1	83.7	100.0	125.0	172.5	220.8	(Sept. 30) 225.8	(Sept. 30) 225.1	+104.3	+108.9
unsecured loans	52.1	46.5	46.1	50.9	62.2	97.0	(Sept. 30) 123.1	(Sept. 30) 146.6	+ 86.2	+136.3
Small Loan Companies and Money- Lenders	16.7	16.7	18.7	21.6	26.9	41.0	56.4	62.0	+145.5	+237.7
Insurance Policy Loans	200.2	188.6	172.8	159.4	152.1	149.6	152.3	154.6	- 25.3	- 22.8
Credit Union Personal Loans	9.6	10.4	14.9	18.8	24.8	31.9	42.1	47.3	+232.3	+338.5
Total	386.7	345.9	352.5	375.7	438.5	540.3	599.7	635.6	+ 39.7	+ 55.1
Total Consumer Credit Outstanding	675.9					739.6	947.5	1,016.1	+ 9.4	+ 40.2
										+ 50.3

Source: Dominion Bureau of Statistics, Ottawa.

Consumer Credit and the Demand for Consumer Goods.

All of commodity credit and a large proportion of cash credit (particularly if secured loans are excluded) is used in the purchase of consumer goods and services either directly or indirectly.

Retail consumer credit provides the borrower with goods he would otherwise have to wait for, and compels him to save enough to pay for them after they have been delivered rather than before. There is little doubt that the desire to possess something "now", coupled with available credit machinery, reinforces the demand for consumer goods, particularly durables which have a high unit price. Unless families are forced by contract to save, the funds would be spent for other purposes, services or soft goods.

The result of a moderate or even a large increase in the rates charged for the consumer credit service has less effect on the demand for it than changes in the down payments required and the period over which the debt is repaid.

The lower the down payments and the longer the periods of amortization, the higher the demand. The higher the down payment and monthly instalments, the greater the amount of saving necessary to accumulate the cash required to make the purchase. The small differences created by changes in finance charges probably are not apparent to the consumer as a final effective rate on the whole transaction and so make little difference in demand.

By creating demand with lower down payments and longer terms, the actual cost of the commodity to the consumer is increased by necessarily higher consumer credit service charges and so adds inflationary pressure in a market when such commodities are already scarce.

The Federal Reserve Bulletin sums up the question in this way:

"In view of the current tight situation in supplies of labour and material, further expansion of consumer credit can neither increase output nor put more people to work"¹ in the United States. The writer goes on to say that, as scarcities become apparent and international developments create pressures on the markets, "domestic demand. . . . is augmented by the desire of consumers to anticipate more acute shortages."²

Does the Consumer Know What He Pays For Consumer Credit?

There is little doubt that the consumer is not aware of the interest cost equivalent of the alternative credit services offered to him. Unless there is a clear basis of comparison of the credit service costs from different institutional sources, then the consumer is unable to choose the service at the lowest available market rate. Conversion to an annual rate might prove a deterrent to borrowing.

¹Federal Reserve Bulletin, August, 1948, p. 903.

²Ibid.

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STATISTICAL SUPPLEMENT

TABLE 1
WHOLESALE AND RETAIL PRICE INDEXES, BY MONTHS
1939-1948
A GENERAL WHOLESALE INDEX
(1935-1939 = 100)

	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948 ^a
January	94.9	107.1	110.0	122.0	125.9	132.9	133.5	135.7	148.1	190.5
February	94.9	107.4	110.8	122.7	126.5	133.2	133.6	136.6	153.4	191.0
March	94.9	107.9	111.5	123.2	127.9	133.6	133.7	137.0	156.7	190.5
April	95.2	107.8	112.6	123.2	128.4	133.5	134.0	140.6	159.9	192.6
May	95.6	106.6	115.2	123.5	128.8	132.9	134.4	141.4	163.0	194.6
June	94.9	106.0	116.9	124.3	129.2	132.9	134.9	141.8	166.0	197.0
July	94.2	107.1	118.3	124.6	129.8	132.9	135.7	142.3	167.4	197.1
August	93.8	107.1	119.3	123.9	130.2	132.7	134.9	141.8	169.6	204.7
September	101.7	107.7	121.0	124.3	131.1	132.7	134.0	141.6	173.8	205.2
October	103.2	108.0	121.8	125.3	132.2	132.7	134.4	144.0	180.7	206.5
November	104.3	108.9	121.8	125.7	132.8	132.8	134.8	144.7	184.8	207.1
December	106.0	109.2	121.3	125.8	132.9	132.9	134.8	145.3	186.1	206.9
Year	97.8	107.5	116.7	124.0	129.7	132.9	134.4	141.0	167.4	198.6

^a Subject to revision.

Source: Dominion Bureau of Statistics, Ottawa.

TABLE 1—(Cont'd)
WHOLESALE AND RETAIL PRICE INDEXES, BY MONTHS
1939-1948

B COST-OF-LIVING INDEX

(1935-1939 = 100)

	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948
January	101.1	103.8	108.3	115.4	117.1	119.0	118.6	119.9	127.0	148.3
February	100.7	103.8	108.2	115.7	116.9	118.9	118.6	119.9	127.8	150.1
March	100.6	104.6	108.2	115.9	117.2	119.0	118.7	120.1	128.9	150.8
April	100.6	104.6	108.6	115.9	117.6	119.1	118.7	120.8	130.6	151.6
May	100.6	104.9	109.4	116.1	118.1	119.2	119.0	122.0	133.1	153.3
June	100.5	104.9	110.5	116.7	118.5	119.0	119.6	123.6	134.9	154.3
July	100.8	105.6	111.9	117.9	118.8	119.0	120.3	125.1	135.9	156.9
August	100.8	105.9	113.7	117.7	119.2	118.9	120.5	125.6	136.6	157.5
September	100.8	106.6	114.7	117.4	119.4	118.8	119.9	125.5	139.4	158.9
October	103.5	107.0	115.5	117.8	119.3	118.6	119.7	126.8	142.2	159.6
November	103.8	107.8	116.3	118.6	119.4	118.9	119.9	127.1	143.6	159.6
December	103.8	108.0	115.8	118.8	119.3	118.5	120.1	127.1	146.0	158.9
Year	101.5	105.6	111.7	117.0	118.4	118.9	119.5	123.6	135.5	155.0

Source: Dominion Bureau of Statistics, Ottawa.

TABLE 2
WHOLESALE AND RETAIL PRICE INDEXES, BY YEARS
1913-1947

(1935-1939=100)

Year	General Wholesale Index	Cost-of-Living Index
1913	83.0	79.1
1914	85.0	79.7
1915	91.3	80.7
1916	109.3	87.0
1917	148.2	102.4
1918	165.2	115.6
1919	173.8	126.5
1920	202.2	145.4
1921	142.7	129.9
1922	126.2	120.4
1923	127.1	120.7
1924	128.9	118.8
1925	133.1	119.8
1926	129.7	121.8
1927	126.7	119.9
1928	125.0	120.5
1929	124.0	121.7
1930	112.3	120.8
1931	93.5	109.1
1932	86.5	99.0
1933	87.0	94.4
1934	92.9	95.6
1935	93.5	96.2
1936	96.8	98.1
1937	109.7	101.2
1938	101.9	102.2
1939	97.8	101.5
1940	107.5	105.6
1941	116.7	111.7
1942	124.0	117.0
1943	129.7	118.4
1944	132.9	118.9
1945	134.4	119.5
1946	141.0	123.6
1947	167.4	135.5

Source: Dominion Bureau of Statistics, Ottawa.

TABLE 3

COMPARISONS OF CANADIAN WHOLESALE AND RETAIL PRICE INDEXES WITH
SIMILAR INDEXES FOR UNITED STATES AND UNITED KINGDOM

A WHOLESALE INDEXES

(1935-1939=100)

Year	Canada	United States	United Kingdom
1926	129.7	124.1	124.8
1927	126.7	118.4	119.3
1928	125.0	120.0	118.2
1929	124.0	118.2	115.0
1930	112.3	107.2	100.7
1931	93.5	90.6	88.4
1932	86.5	80.5	86.2
1933	87.0	81.9	86.3
1934	92.9	93.1	88.7
1935	93.5	99.3	89.6
1936	96.8	100.2	95.1
1937	109.7	107.1	109.6
1938	101.9	97.5	102.1
1939	97.8	95.7	103.5
1940	107.5	97.5	137.6
1941	116.7	108.3	153.7
1942	124.0	122.6	160.5
1943	129.7	127.9	163.9
1944	132.9	129.0	167.4
1945	134.4	131.3	170.2
1946	141.0	150.2	176.4
1947	167.4	188.7	193.1
1948, January	190.5	205.6	213.6
February	191.0	199.6	218.2
March	190.5	200.2	218.7
April	192.6	202.0	220.8
May	194.6	203.3	222.0
June	197.0	206.2	223.7
July	197.1	209.3	223.4
August	204.7	210.3	222.7
September	205.2	209.1	221.6
October	206.5	205.0	221.3
November	207.1	203.3	222.1
December	206.9	201.2	222.4

Source: Dominion Bureau of Statistics, Ottawa.

TABLE 3—(Cont'd)

COMPARISONS OF CANADIAN WHOLESALE AND RETAIL PRICE INDEXES WITH
SIMILAR INDEXES FOR UNITED STATES AND UNITED KINGDOMB COST-OF-LIVING INDEXES
(1935-1939 = 100)

Year	Canada	United States	United Kingdom
1926	121.8	126.4	113.5
1927	119.9	124.0	110.8
1928	120.5	122.6	109.4
1929	121.7	122.5	108.2
1930	120.8	119.4	104.2
1931	109.1	108.7	97.3
1932	99.0	97.6	95.0
1933	94.4	92.4	92.3
1934	95.6	95.7	93.0
1935	96.2	98.1	94.3
1936	98.1	99.1	97.0
1937	101.2	102.7	101.6
1938	102.2	100.8	102.9
1939	101.5	99.4	104.2
1940	105.6	100.2	a
1941	111.7	105.2	a
1942	117.0	116.5	a
1943	118.4	123.6	a
1944	118.9	125.5	a
1945	119.5	128.4	a
1946	123.6	139.3	a
1947	135.5	159.2	(165) ^a 100.0 ^a (new index in June 1947) ^a
1948, January	148.3	168.8	(171) 104.0
February	150.1	167.5	(175) 106.0
March	150.8	166.9	(175) 106.0
April	151.6	169.3	(178) 108.0
May	153.3	170.5	(178) 108.0
June	154.3	171.7	(181) 110.0
July	156.9	173.7	(178) 108.0
August	157.5	174.5	(178) 108.0
September	158.9	174.5	(178) 108.0
October	159.6	173.6	(178) 108.0
November	159.6	172.2	(179) 109.0
December	158.9	171.4	(179) 109.0

a) The United Kingdom cost-of-living index was discontinued in June, 1947 and replaced by a new "Retail Price Index" on the base June, 1947 = 100. The former series was inadequate for two reasons. It used a 1913 budget for weighting purposes and several items in the narrow list of contents had been heavily subsidized, thus keeping the index lower than would have been the case if it had been a proper sample of consumer purchases of both subsidized and unsubsidized articles. Unfortunately, there has not been provided an official overlap for the new 1947 based index, telling what it would be on a pre-war base. Competent estimates have been made however; these first appeared in the *London and Cambridge Economic Service*, August, 1947, p. 75 and again in February, 1948, in articles by R.G.D. Allen. These placed the index on a 1938 base at 160 in June, 1947. This figure becomes 164.6 when multiplied by 102.9 in order to place it on a 1935-1939 base. Multiplying 164.6 by the new official series gives the following indexes for 1948:

January	171
February	175
March	175
April	178
May	178
June	181
July	178
August	178
September	178
October	178
November	179
December	179

Sources: Dominion Bureau of Statistics, Ottawa.

United States series are those of the U.S. Bureau of Labor Statistics.

United Kingdom series are those of the Board of Trade in the case of wholesand the Ministry of Labour in the case of cost of living.

TABLE 4

HISTORICAL RECORD OF GENERAL WHOLESALE PRICE INDEX AND MAIN GROUPS,

A ANNUAL DATA, 1913—1947

(1926 = 100)

Year	General Index	Vegetable Products	Animals and their Products	Fibres, Textiles and Textiles Products	Wood, Wood Products and Paper	Iron and its Products	Non-Ferrous Metals and their Products	Non-Metallic Minerals and their Products	Chemicals and Allied Products
1913	64.0	58.1	70.9	58.2	63.9	68.9	98.4	56.8	63.4
1914	65.5	64.8	72.6	56.9	60.3	67.3	94.7	53.7	65.3
1915	70.4	75.6	74.0	58.3	56.5	73.9	106.9	52.7	68.1
1916	84.3	87.0	85.0	77.6	64.0	104.6	135.1	58.0	78.0
1917	114.3	124.5	110.4	114.6	79.8	151.8	143.9	71.6	98.1
1918	127.4	127.9	127.1	157.1	89.1	156.9	141.9	82.3	118.7
1919	134.0	136.1	140.8	163.8	109.6	139.1	133.5	93.6	117.5
1920	155.9	167.0	145.1	176.5	154.4	168.4	135.5	112.2	141.5
1921	110.0	103.5	109.6	96.0	129.4	128.0	97.0	116.6	117.0
1922	97.3	86.2	96.0	101.7	106.3	104.6	97.3	107.0	105.4
1923	98.0	83.7	95.0	116.9	113.0	115.8	95.3	104.4	104.4
1924	99.4	89.2	91.8	117.9	105.9	111.0	94.8	104.1	102.5
1925	102.6	100.6	100.3	112.5	101.6	104.5	103.9	100.3	99.6
1926	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1927	97.7	98.3	101.9	93.7	98.5	96.2	91.5	96.5	98.3
1928	96.4	93.0	108.1	94.5	98.7	93.2	92.0	92.5	95.3
1929	95.6	91.6	109.0	91.3	93.9	93.7	99.2	92.9	95.4
1930	86.6	77.7	99.1	81.8	88.7	91.1	80.7	91.3	92.8
1931	72.1	56.9	73.9	73.4	79.1	87.4	64.6	86.5	86.7
1932	66.7	54.8	59.7	69.7	69.1	86.3	59.0	85.5	83.9
1933	67.1	59.3	59.4	69.7	62.8	85.4	64.3	84.4	81.3
1934	71.6	66.6	67.2	72.9	65.4	87.0	64.3	86.0	81.2
1935	72.1	67.3	70.4	70.2	64.6	87.2	69.1	85.5	79.1
1936	74.6	72.6	71.8	69.7	68.5	88.0	70.0	85.5	78.0
1937	84.6	88.4	78.4	72.8	76.7	101.8	83.8	86.6	81.4
1938	78.6	73.8	76.7	67.5	77.5	100.4	70.9	86.7	79.9
1939	75.4	63.7	74.6	70.0	79.2	98.5	71.3	85.3	79.8
1940	82.9	72.1	79.1	83.8	88.8	104.1	76.9	89.3	87.9
1941	90.0	77.0	92.1	91.0	96.0	111.3	77.7	95.2	98.9
1942	95.6	84.5	101.1	92.0	101.8	115.4	78.4	99.0	102.9
1943	100.0	91.2	107.3	91.9	109.6	115.8	79.7	100.4	100.4
1944	102.5	95.0	106.7	91.8	117.9	116.9	79.7	102.4	100.1
1945	103.6	97.0	107.9	91.8	120.0	117.1	79.8	102.0	99.4
1946	108.7	97.8	114.5	97.0	132.3	126.1	88.0	103.1	95.2
1947	129.1	115.1	131.8	128.8	162.4	137.9	124.4	114.5	107.9

Source: Dominion Bureau of Statistics, Ottawa.

TABLE 4—(Cont'd)

HISTORICAL RECORD OF WHOLESALE PRICE INDEXES AND MAIN GROUPS

A ANNUAL DATA, 1913—1947

(1926 = 100)

Year	Producers' Goods	Consumers' Goods	Building and Construction Materials	Raw and Partly Manufactured Materials	Fully and Chiefly Manufactured Materials	Canadian Farm Products		
						Total	Field	Animal
1913	67.7	62.0	67.0	63.8	64.8	64.1	56.4	77.0
1914	70.1	62.1	62.8	66.2	65.6	70.2	65.4	78.3
1915	77.1	62.8	60.5	72.5	71.1	77.9	76.9	79.5
1916	89.7	72.2	69.5	86.4	84.6	89.8	88.8	91.4
1917	120.6	90.5	87.4	113.6	113.5	128.5	134.5	118.4
1918	133.3	102.7	100.7	120.8	127.7	132.6	132.0	133.6
1919	139.8	115.2	117.8	127.9	132.1	146.7	142.6	153.5
1920	164.3	136.1	144.0	154.1	156.5	160.6	166.5	150.8
1921	113.3	108.9	122.7	105.2	116.1	103.7	100.3	109.5
1922	98.8	96.9	108.7	94.7	100.4	88.0	81.4	99.0
1923	97.6	94.7	111.9	91.1	103.1	81.5	73.3	95.1
1924	99.4	94.2	106.6	94.8	101.9	88.1	82.7	97.2
1925	104.9	97.0	102.9	100.8	103.8	101.1	98.2	105.6
1926	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1927	98.5	95.7	96.1	99.9	96.5	102.1	99.9	105.7
1928	96.7	95.6	97.4	97.4	95.0	100.7	92.6	114.3
1929	96.1	94.7	99.0	97.5	93.0	100.8	93.8	112.5
1930	82.5	89.3	90.8	82.2	87.3	82.3	70.0	102.9
1931	67.1	76.2	81.9	61.9	74.8	56.3	43.6	77.6
1932	62.4	71.3	77.2	55.0	69.8	48.4	41.1	60.7
1933	63.1	71.1	78.3	56.6	70.2	51.0	45.8	59.7
1934	67.8	74.1	82.5	63.5	73.4	59.0	53.8	67.7
1935	69.5	73.6	81.2	66.0	72.8	63.5	57.3	74.0
1936	72.4	74.7	85.3	70.8	73.6	69.4	65.8	75.3
1937	86.1	79.5	94.4	84.3	80.5	87.1	88.3	85.0
1938	75.8	77.2	89.1	72.7	78.2	75.6	69.0	81.3
1939	70.4	75.9	89.7	67.5	75.3	64.3	54.2	81.2
1940	78.7	83.4	95.6	75.3	81.5	67.6	56.8	85.8
1941	83.6	91.1	107.3	81.8	88.8	72.8	59.0	95.9
1942	88.3	95.6	115.2	90.1	91.9	85.0	70.6	109.2
1943	95.1	97.0	121.2	99.1	93.1	97.9	84.7	120.0
1944	99.9	97.4	127.3	104.0	93.6	107.1	98.6	121.3
1945	100.7	98.1	127.3	105.6	94.0	114.9 ^a	110.1 ^a	123.0
1946	105.7	101.1	134.8	109.5	98.8	124.4 ^a	121.1 ^a	130.1
1947	129.3	117.3	166.4	130.7	117.4	132.7 ^a	126.0 ^a	143.9

^a) Revised to include latest participation payment on western wheat, which brings the price to \$1.75 for No. 1 Manitoba Northern, retroactive to August, 1945.
Source: Dominion Bureau of Statistics, Ottawa.

TABLE 4—(Cont'd)

HISTORICAL RECORD OF GENERAL WHOLESALE PRICE INDEX AND MAIN GROUPS

B MONTHLY DATA, SEPTEMBER, 1945—DECEMBER, 1948

(1926 = 100)

Year	General Index	Vegetable Products	Animals and their Products	Fibres, Textiles and Textiles Products	Wood, Wood Products and Paper	Iron and its Products	Non-Ferrous Metals and their Products	Non-Metallic Minerals and their Products	Chemicals and Allied Products
1945									
September	103.3	96.3	107.7	91.8	120.5	117.1	78.9	101.4	99.2
October	103.6	96.3	108.9	91.8	120.5	116.9	80.9	101.5	99.1
November	103.9	96.7	109.8	91.8	120.5	116.9	80.9	101.7	98.8
December	103.9	97.0	108.9	91.8	120.5	117.0	80.9	102.4	98.4
1946									
January	104.6	97.2	108.3	91.8	125.2	117.8	80.9	102.4	95.7
February	105.3	97.2	109.2	92.2	125.4	118.2	87.8	102.4	95.7
March	105.6	97.4	109.0	95.5	125.4	118.4	87.8	102.6	95.7
April	108.4	97.8	112.7	98.2	128.9	128.8	87.8	102.9	95.6
May	109.0	98.5	113.3	98.2	131.5	128.8	86.9	102.7	94.4
June	109.3	98.7	114.6	98.2	132.0	128.8	86.9	102.7	94.4
July	109.7	99.2	115.8	98.2	131.4	128.7	89.3	102.9	94.3
August	109.3	97.8	115.6	98.2	131.7	128.6	89.7	102.5	94.4
September	109.2	97.4	115.3	98.2	131.8	128.9	89.7	102.6	94.7
October	111.0	97.0	119.7	98.2	138.9	128.9	89.7	104.0	95.7
November	111.6	97.5	119.9	98.4	141.5	128.9	89.9	104.2	96.4
December	112.0	97.3	120.2	98.4	143.6	128.9	89.4	104.9	95.3
1947									
January	114.2	97.6	122.7	100.3	147.8	131.5	97.1	105.6	98.1
February	118.3	102.1	123.0	112.5	149.0	133.1	115.0	106.3	103.7
March	120.8	107.0	123.4	120.5	149.0	133.4	116.2	107.3	103.1
April	123.3	110.6	124.1	124.8	153.8	133.4	115.8	109.3	104.0
May	125.7	111.4	127.9	125.3	161.0	134.1	115.1	113.9	105.0
June	128.0	111.8	129.5	130.5	162.8	134.8	128.4	114.9	110.3
July	129.1	113.6	129.4	131.3	164.1	135.0	132.2	115.8	110.5
August	130.8	115.0	131.5	133.6	165.6	136.6	132.7	118.8	110.0
September	134.0	122.2	135.9	134.2	166.1	137.5	134.3	118.9	112.6
October	139.3	127.1	140.8	137.4	175.5	148.3	134.7	119.1	111.9
November	142.5	131.7	144.2	146.7	176.8	148.3	135.4	121.2	112.6
December	143.5	130.8	149.0	148.1	177.7	149.3	135.4	122.6	112.8
1948 ^b									
January	146.9	132.6	159.1	149.1	181.7	150.6	136.6	125.6	113.7
February	147.3	131.4	159.5	154.4	182.0	150.6	138.4	125.6	114.0
March	146.9	130.7	159.4	153.6	180.9	150.6	138.3	127.5	114.0
April	148.5	132.6	160.6	155.2	181.3	153.0	141.7	128.2	115.2
May	150.0	133.4	162.3	155.2	183.5	156.7	143.4	129.5	115.9
June	151.9	134.7	167.8	155.4	184.0	159.1	143.8	131.6	115.9
July	152.0	132.3	170.2	155.5	184.3	159.6	143.9	134.5	116.7
August	157.8	140.0	177.4	156.9	188.8	163.3	155.4	136.0	126.7
September	158.2	138.5	178.4	159.8	189.3	165.0	155.8	137.1	126.8
October	159.2	139.0	177.5	160.7	193.8	165.3	159.9	137.3	126.2
November	159.7	139.9	176.5	161.4	193.7	166.1	164.2	137.0	127.0
December	159.5	139.3	176.0	162.0	192.2	167.1	163.5	137.6	129.1

^b Subject to revision.

Source: Dominion Bureau of Statistics, Ottawa.

TABLE 4—(Cont'd)

HISTORICAL RECORD OF WHOLESALE PRICE INDEXES AND MAIN GROUPS

B MONTHLY DATA, SEPTEMBER, 1945—DECEMBER, 1948

(1926 = 100)

Year	Producers' Goods	Consumers' Goods	Building and Construction Materials	Raw and Partly Manufactured Materials	Fully and Chiefly Manufactured Materials	Canadian Farm Products		
						Total ^a	Field ^a	Animal
1945								
September	100.3	97.9	127.0	105.2	94.0	119.1	118.9	119.5
October	100.3	98.3	127.0	105.6	94.1	121.2	119.1	124.8
November	100.4	98.6	127.2	106.0	94.3	121.8	119.7	125.5
December	101.1	98.4	127.3	106.0	94.3	122.0	120.0	125.4
1946								
January	102.1	97.8	128.1	106.0	95.3	122.2	120.5	125.0
February	103.4	98.1	128.5	106.9	95.5	122.8	121.0	126.0
March	103.6	99.0	128.6	107.0	96.0	122.9	121.0	126.1
April	105.1	100.9	135.2	108.2	98.6	123.2	121.3	126.5
May	105.8	101.0	135.2	109.1	98.6	123.9	121.6	127.7
June	106.4	101.4	135.2	109.8	98.7	125.2	122.1	130.5
July	106.2	102.1	134.7	110.2	98.9	126.3	123.7	130.6
August	105.9	101.6	135.8	108.6	99.6	124.0	120.9	129.3
September	105.9	101.5	135.8	108.2	99.8	123.5	120.2	129.2
October	107.4	103.1	137.6	112.3	101.4	125.8	119.9	135.8
November	108.1	103.3	140.9	113.5	101.4	126.4	120.0	137.1
December	108.9	103.1	141.7	113.6	101.7	126.5	120.3	137.0
1947								
January	111.2	104.1	148.2	115.0	103.7	126.9	120.2	138.3
February	117.7	107.6	152.5	119.5	107.1	128.1	120.9	140.1
March	121.7	108.8	152.5	124.7	108.2	129.0	121.9	141.0
April	123.9	111.6	152.4	126.0	112.2	129.5	121.8	142.5
May	126.1	113.9	161.1	128.4	114.1	131.0	123.8	143.2
June	128.9	116.7	164.6	129.7	115.8	131.7	124.2	144.4
July	129.7	117.7	165.5	131.2	116.2	132.7	126.7	142.7
August	131.6	119.0	167.6	133.2	117.2	132.5	126.4	142.8
September	135.3	121.8	171.1	133.6	123.3	132.9	127.4	142.2
October	139.8	124.8	185.3	138.9	127.6	135.4	129.6	145.3
November	142.4	130.1	186.9	142.5	131.4	139.0	134.0	147.5
December	143.4	131.2	189.2	145.2	132.0	143.4	135.3	156.9
1948 ^b								
January	145.8	135.2	187.8	148.3	136.5	147.1	136.8	164.4
February	145.4	136.7	187.9	147.2	137.2	145.1	133.6	164.3
March	144.9	137.3	186.2	147.3	136.7	144.5	133.0	163.9
April	146.8	137.9	187.4	150.0	137.4	147.5	135.6	167.6
May	148.6	138.4	192.5	152.5	137.4	150.5	138.1	171.2
June	150.4	140.7	194.7	155.9	137.6	154.6	139.4	180.1
July	151.1	141.0	195.4	154.7	138.5	153.6	136.2	182.7
August	160.9	143.1	199.3	162.6	143.2	151.2	128.5	189.3
September	161.4	143.8	200.2	162.7	143.8	149.7	126.6	188.4
October	162.1	143.9	205.9	163.9	143.8	149.2	126.9	186.7
November	162.9	144.0	205.7	164.5	143.9	149.9	128.0	186.7
December	162.6	144.3	203.8	163.6	144.0	148.9	126.6	186.3

^a) Revised to include latest participation payment on western wheat, which brings the price to \$1.75 for No. 1 Manitoba Northern, retroactive to August, 1945.

^b) Subject to revision.

Source: Dominion Bureau of Statistics, Ottawa.

TABLE 5

SUB-GROUPS OF THE GENERAL WHOLESALE INDEX, 1939, SEPTEMBER, 1945,
SEPTEMBER, 1947 AND SEPTEMBER, 1948

(1926 = 100)

Commodity Group	1939	September, 1945	September, 1947	September, 1948 ^a
General Index	75.4	103.3	134.0	158.2
I. Vegetable Products	63.7	96.3	122.2	138.5
Fruits	75.2	125.5	135.1	120.4
Fresh	76.0	139.3	141.3	122.9
Dried	80.3	93.7	131.3	126.7
Canned	65.3	74.8	101.7	99.1
Grains	46.5	91.3	121.4	147.9
Flour and other Milled Products	64.5	79.0	117.3	129.4
Bakery Products	83.8	86.8	87.7	117.8
Vegetable Oils	63.6	126.8	249.6	320.5
Rubber and its Products	60.3	75.7	69.8	73.6
Sugar and its Products and Glucose	88.4	120.7	141.8	141.0
Tea, Coffee, Cocoa and Spices	78.6	114.8	185.7	214.4
Vegetables	62.8	99.0	101.0	92.2
II. Animals and their Products	74.6	107.7	135.9	178.4
Fishery Products	73.3	130.0	152.9	187.4
Furs	51.4	101.7	64.9	63.6
Hides and Skins	80.0	97.0	118.9	156.0
Leather, Unmanufactured	89.9	111.9	142.2	178.9
Boots and Shoes	92.8	108.9	132.7	161.4
Live Stock	86.6	142.1	176.6	279.1
Meats and Poultry	79.1	114.8	133.4	206.8
Milk and its Products	73.2	98.7	148.2	169.6
Fats	49.8	84.0	123.5	169.3
Eggs	60.1	94.6	98.9	122.7
III. Fibres, Textiles and Textile Products	70.0	91.8	134.2	159.8
Cotton Fabrics	70.9	82.5	131.4	163.6
Cotton Knit Goods	82.1	98.9	153.7	181.2
Miscellaneous Fibre Products	54.0	91.1	139.7	151.8
Rayon Fabrics ^b	55.0	68.9	88.1	97.1
Rayon Yarns	43.5	49.0	58.8	63.6
Wool, Raw	62.0	94.7	114.5	146.2
Wool Hosiery and Knit Goods chiefly Wool	90.1	108.8	146.0	173.7
Wool Cloth	76.6	104.1	157.5	199.5
IV. Wood, Wood Products and Paper	79.2	120.5	166.1	189.3
Newsprint and Wrapping Paper	69.8	90.7	123.6	134.8
Lumber	94.0	160.5	223.6	273.7
Pulp	74.2	131.2	190.8	195.8
V. Iron and its Products	98.5	117.1	137.5	165.0
Pig Iron and Steel Billets	91.4	104.8	143.0	172.0
Rolling Mill Products	105.2	123.7	140.1	162.3
Hardware	88.6	93.9	119.9	139.7
Wire	97.2	105.5	123.8	162.9
Scrap	75.6	110.3	110.3	171.6

^a) Subject to revision.

^b) Formerly silk.

Source: Dominion Bureau of Statistics, Ottawa.

TABLE 5—(Cont'd)

SUB-GROUPS OF THE GENERAL WHOLESALE INDEX, 1939, SEPTEMBER, 1945,
SEPTEMBER, 1947 AND SEPTEMBER, 1948

(1926 = 100)

Commodity Group	1939	September, 1945	September, 1947	September, 1948 ^a
VI. Non-Ferrous Metals and their Products	71.3	78.9	134.3	155.8
Brass and Copper Products	77.2	86.8	152.4	154.0
Lead and its Products	52.9	62.1	166.0	219.2
Tin Ingots	81.5	95.6	119.9	157.6
Zinc and its Products	46.3	59.1	111.7	160.3
Iron and Non-Ferrous Metals and their Products (V and VI above)	89.4	104.4	136.4	161.9
VII. Non-Metallic Minerals and their Products	85.3	101.4	118.9	137.1
Clay and Allied Products	86.0	103.2	128.1	139.1
Coal	94.9	122.5	147.2	162.8
Coke	114.0	123.2	183.6	219.2
Manufactured Gas	102.0	100.6	106.6	115.1
Glass and its Products	77.8	104.4	108.7	118.4
Petroleum Products	68.4	79.8	92.4	111.2
Asphalt	92.2	103.3	125.6	152.3
Salt	108.7	130.6	160.5	160.5
Lime	100.9	112.2	114.4	134.8
Cement	96.7	105.1	112.5	126.1
Sand and Gravel	84.9	88.4	103.5	127.6
Crushed Stone	74.5	82.1	90.6	100.4
Building Stone	64.3	70.8	80.2	80.2
Asbestos	75.8	74.2	109.9	129.1
VIII. Chemicals and Allied Products	79.8	99.2	112.6	126.8
Inorganic Chemicals	85.7	87.8	89.4	94.0
Organic Chemicals	72.9	87.4	122.8	139.1
Coal Tar Products	91.3	91.1	113.0	139.5
Dyeing and Tanning Materials	107.2	144.7	139.6	172.1
Explosives	74.2	73.1	82.7	85.8
Paints, Prepared	68.9	76.3	112.8	112.8
Drugs and Pharmaceuticals	81.4	162.6	113.0	100.3
Fertilizer Materials	83.0	83.7	100.9	105.2
Industrial Gases	89.5	89.2	93.8	103.2

^a Subject to revision.

Source: Dominion Bureau of Statistics, Ottawa.

TABLE 6
SELECTED WHOLESALE PRICES, 1926, 1935-1939, SEPTEMBER, 1945, SEPTEMBER, 1947 AND SEPTEMBER, 1948

	Unit	1926	1935-1939	Sept. 1945	Sept. 1947	Sept. 1948
Wheat No. 1 Manitoba Northern, Fort William and Port Arthur. Wheat Board selling price for recent years. Cash closing price on Winnipeg Exchange for early years.	Bushel	\$ 1.495	\$.956	\$ 1.250	\$ 1.585	\$ 2.050
a) Domestic use				1.550	1.585	2.050
b) U. K. Contract				1.550	2.940	2.368
c) Commercial export price				4.900	8.950	8.500
Flour 1st patent f.o.b. Ontario and Montreal lake and rail points, carlots, domestic use	2-98's	8.522	5.935			
Bread unwrapped Toronto	pound	.0588	.055	.053	.053	.077
Sugar standard granulated f.o.b. Montreal	hundredweight	5.958	4.894	6.893	7.893	7.893
Potatoes Quebec Whites Montreal	75 pound bag	1.758	.867	1.650	1.781	1.306
Hay Timothy No. 2, baled carlots at Toronto	ton	16.645	11.103	17.667	22.000	18.000
Steers good up to 1050 pounds at Toronto	hundredweight	6.907	6.173	11.030	13.920	21.750
Hogs B-1 Dressed delivered off trucks Toronto	hundredweight	17.770	11.967	17.930	22.810	32.880
Bacon smoked maximum weight 14 pounds Toronto	pounds	.3569	.2564	.3526	.4597	.600
Milk fluid price paid producers delivered dairy Toronto	100 pounds	2.442	2.132	2.450	3.450	4.050
Butter first grade creamery prints jobbing price Montreal	pound	.390	.263	.366	.619	.705
Grey cotton 36" wide 4.00 yd. to pound f.o.b. mill	yard	.1282	.0937	.099	.186	.234
Fancy worsted suiting 64's quality 13-14 ounce per yard 58-60" wide, 60 ends, 53 picks per inch 2-30 worsted yarn decorated with 2-50 spun yarn f.o.b. mill	yard	1.504	1.462	2.253	3.479	4.655
Newspaper paper rolls f.o.b. Canadian Mills (Canadian Funds)	ton	65.000	38.288	59.400	81.200	88.600
Spruce, 1 x 6 f.o.b. mill New Brunswick	M. bd. ft.	22.630	19.604	40.598	47.400	59.000
Pine No. 1 and 2 common 1 x 8 f.o.b. Montreal	M. bd. ft.	41.774	43.362	65.000	75.500	109.000
Fir dimension S1S1E or S4S No. 1, 2 x 4 and 2 x 6 f.o.b. mill British Columbia	M. bd. ft.	16.199	16.010	25.999	40.000	52.500
Cedar shingles, XXXXX, f.o.b. mill, British Columbia	sq. of 4 bundles	2.477	2.377	4.785	10.500	9.250
Pulp ground wood No. 1 air dry delivered	ton	39.747	29.993	55.000	81.000	81.000
Unbleached sulphite pulp newsgrade f.o.b. mill	ton	61.749	47.049	81.400	115.000	125.000
Structural steel shapes f.o.b. cars plant Ontario	100 pounds	2.268	2.200	2.749	3.150	3.600
Steel scrap charging box size (that is not more than 5 ft. long not wider than 16" and not less than 1/2" thick) delivered consuming mill in Canada	gross ton	15.570	12.549	17.688	18.000	24.000
Wire nails carlots f.o.b. sellers' works Ontario	keg of 100 pounds					
Copper electrolytic domestic carlots f.o.b. refinery	100 pounds	3.514	3.194	3.294	4.428	5.292
Lead domestic, carlots f.o.b. refinery	100 pounds	15.536	10.590	11.326	21.25	21.200
Coal American bituminous run of mine ex yard Montreal	100 pounds	8.160	4.559	5.002	13.49	17.820
Coal bituminous run of mine Nova Scotia	ton	6.296	6.159	8.550	10.280	11.500
Coal American anthracite, egg, carlots f.o.b. Toronto	ton	6.083	5.333	6.980	6.980	6.980
Gasoline tank wagon Toronto	ton	12.110	10.459	12.360	15.300	16.580
Sulphuric acid 66°, tank cars f.o.b. works Ontario	gallon	.2525	.155	.165	.180	.210
Tires synthetic balloon passenger 600/16 4 ply first grade f.o.b. branch warehouse	ton	13.219	15.480	17.000	17.000	18.000
	each	22.59	12.407	16.700	14.300	14.300

Source: Dominion Bureau of Statistics, Ottawa.

TABLE 7

SELECTED WHOLESALE INDEXES FOR INDIVIDUAL ITEMS BY MONTHS,
SEPTEMBER, 1945—DECEMBER, 1948

(1926 = 100)

	Steers	Beef	Calves	Veal	Hogs (bonus included)	Hogs (bonus excluded)	Pork
1939 Year	96.7	103.6	86.8	77.1	68.2	68.2	66.3
1935 - 1939	90.6	92.2	78.9	72.0	68.5	68.5	65.0
1945 September	165.5	173.1	127.4	112.8	111.1	103.5	89.6
October	160.5	173.1	128.4	112.8	106.6	99.0	89.6
November	161.0	173.1	136.2	112.8	106.2	98.6	89.6
December	175.7	173.1	148.2	112.8	108.2	100.6	89.6
Year	174.3	173.1	139.6	112.5	109.5	102.0	89.6
1946 January	178.0	173.1	154.8	112.8	112.0	104.5	89.6
February	181.5	173.1	155.8	112.8	111.9	104.3	89.6
March	182.6	173.1	153.4	112.8	107.9	100.4	89.6
April	182.8	173.1	150.3	112.8	114.0	110.2	100.5
May	188.1	173.1	151.1	112.8	116.5	112.7	100.5
June	205.1	186.5	148.1	112.8	120.2	116.4	100.5
July	195.4	186.1	140.8	112.8	119.9	116.2	100.5
August	186.1	176.5	143.0	112.8	121.3	117.5	100.5
September	183.7	176.5	146.0	112.8	121.0	117.2	100.5
October	183.5	176.5	146.0	112.8	116.1	112.3	100.5
November	185.2	176.5	147.1	112.8	116.8	113.0	100.5
December	189.5	176.5	155.7	112.8	119.8	116.0	100.5
Year	186.8	176.8	149.3	112.8	116.5	111.7	97.8
1947 January	201.4	176.5	157.6	112.8	125.5	121.7	105.8
February	208.9	176.5	161.5	112.8	125.9	122.1	108.7
March	212.0	165.1	159.7	112.8	125.8	122.0	108.7
April	220.3	185.1	161.0	112.8	126.4	122.6	108.7
May	223.1	185.1	153.0	112.8	126.3	122.5	108.7
June	227.0	185.1	155.1	112.8	126.4	122.6	108.7
July	214.3	185.1	148.6	112.8	127.7	123.9	108.7
August	208.5	185.1	148.8	112.8	129.5	123.7	108.7
September	206.1	185.1	151.8	112.8	134.6	130.8	115.9
October	202.8	185.1	150.7	112.8	130.8	127.0	115.9
November	201.6	188.9	153.2	145.7	132.7	128.9	120.8
December	212.7	194.7	165.0	144.6	133.6	129.8	121.0
Year	211.6	184.8	155.5	118.2	128.8	125.0	111.7
1948 January	227.8	214.1	200.2	161.3	165.0	161.2	149.0
February	227.5	212.1	210.6	169.9	165.6	161.8	155.5
March	232.7	221.1	208.1	185.5	166.7	162.9	155.9
April	249.3	234.3	195.4	167.7	166.0	162.2	155.7
May	267.1	265.1	201.5	174.9	167.0	163.2	151.9
June	308.5	311.2	216.9	189.9	173.3	169.5	162.7
July	307.5	304.8	206.8	187.7	180.3	176.5	168.1
August	333.8	316.7	228.0	206.1	190.2	186.4	171.8
September	335.7	337.2	257.9	209.0	190.8	187.0	174.9
October	318.3	321.1	256.4	211.9	182.5	178.7	170.8
November	319.5	316.3	259.1	212.4	176.4	172.6	164.7
December	324.2	321.6	278.1	220.4	178.0	174.3	162.1

TABLE 7—(Cont'd)

SELECTED WHOLESALE INDEXES FOR INDIVIDUAL ITEMS BY MONTHS,
SEPTEMBER, 1945—SEPTEMBER, 1948

(1926 = 100)

	Lambs	Lamb Carcass	Lard	Tallow	Milk	Butter	Fish
1939 Year	75.4	73.2	50.2	47.7	85.7	61.0	73.3
1935 - 1939	69.9	69.2	67.5	59.1	83.4	64.5	72.6
1945 September	107.2	105.5	81.2	100.0	103.5	87.9	130.0
October	107.8	103.8	81.2	100.0	103.5	89.4	130.0
November	110.9	103.8	81.2	100.0	103.5	91.3	130.7
December	115.4	103.8	81.2	100.0	103.5	91.4	130.7
Year	114.7	108.0	81.2	100.0	103.5	88.8	130.0
1946 January	120.2	103.8	81.2	100.0	103.4	91.4	130.7
February	114.5	103.8	81.2	100.0	104.4	91.3	134.5
March	114.4	103.8	81.2	100.0	104.4	91.4	132.5
April	120.1	103.8	89.4	100.0	104.5	101.3	138.7
May	125.4	103.8	89.4	100.0	104.5	99.7	143.8
June	127.2	118.7	89.4	100.0	104.3	97.3	143.8
July	130.7	118.7	89.4	100.0	104.3	100.5	144.5
August	120.2	118.7	89.4	100.0	104.3	101.1	150.9
September	114.4	103.8	89.4	100.0	104.3	101.2	150.9
October	114.1	103.8	89.4	100.0	140.5	101.3	150.9
November	117.4	103.8	89.4	100.0	142.1	101.3	150.9
December	122.7	103.8	89.4	100.0	142.1	101.3	160.2
Year	120.1	107.5	87.4	100.0	113.6	98.3	144.4
1947 January	122.5	103.8	119.4	100.0	142.2	101.3	160.2
February	119.5	103.8	119.4	104.0	142.3	101.3	157.1
March	124.3	103.8	119.4	104.0	142.6	101.3	152.0
April	124.9	103.8	119.4	146.9	142.9	101.3	151.3
May	127.9	105.0	119.4	146.9	142.8	124.6	145.5
June	138.8	108.1	119.4	146.9	143.1	126.7	153.6
July	134.8	114.1	119.4	146.9	143.2	127.3	150.6
August	129.3	116.1	119.4	146.9	143.2	138.3	152.9
September	122.5	116.5	119.4	146.9	143.2	152.7	152.9
October	117.3	118.9	119.4	146.9	143.3	147.9	171.3
November	116.2	119.6	119.4	146.9	147.1	151.2	172.7
December	122.9	127.6	119.4	146.9	161.1	165.0	172.7
Year	125.1	111.8	119.4	135.8	144.8	128.2	157.7
1948 January	142.5	140.2	119.4	181.1	167.6	170.4	176.6
February	144.3	137.8	119.4	181.1	168.0	168.2	176.6
March	146.7	139.6	119.4	181.1	168.3	167.7	176.6
April	146.9	146.2	119.4	181.1	168.8	167.8	175.4
May	157.3	149.0	119.4	181.1	168.8	167.4	168.4
June	191.2	179.6	119.4	181.1	169.0	165.9	166.8
July	178.3	186.9	119.4	181.1	170.2	168.1	168.8
August	188.3	186.9	159.5	182.9	170.2	170.1	187.4
September	174.0	174.5	167.0	182.9	170.2	170.1	187.4
October	172.4	169.2	170.6	182.9	170.3	170.1	188.7
November	183.9	176.3	174.4	182.9	170.6	170.1	188.7
December	193.5	190.1	169.4	182.9	171.1	170.1	191.9

Source: Dominion Bureau of Statistics, Ottawa.

TABLE 7—(Cont'd)

SELECTED WHOLESALE INDEXES FOR INDIVIDUAL ITEMS BY MONTHS,
SEPTEMBER, 1945—DECEMBER, 1948

(1926 = 100)

	Canned Fruits	Canned Vegetables	Flour 1st Toronto	Bread	Potatoes	Gran- ulated Sugar	Tea
1939 Year	65.3	72.4	56.5	83.7	58.3	85.8	93.6
1935 - 1939	67.2	75.3	69.6	86.6	50.1	82.1	86.8
1945 September	74.8	80.9	57.5	86.4	96.6	115.7	119.0
October	74.8	80.9	57.5	86.4	99.2	115.7	119.0
November	74.8	80.9	57.5	86.4	102.5	115.7	119.0
December	74.8	80.9	57.5	86.4	105.3	115.7	119.0
Year	74.3	80.9	57.5	86.4	113.5	115.7	119.0
1946 January	74.8	80.9	57.5	86.4	108.1	115.7	119.0
February	74.8	80.9	57.5	86.4	108.4	115.7	119.0
March	78.7	80.9	57.5	86.4	111.3	115.7	119.0
April	78.7	80.9	57.5	86.4	113.8	115.7	119.0
May	82.0	80.9	57.5	86.4	116.5	115.7	119.0
June	82.0	83.1	57.5	86.4	121.7	115.7	119.0
July	86.7	83.1	57.5	86.4	142.1	115.7	119.0
August	88.3	96.1	57.5	86.4	103.2	115.7	119.0
September	88.3	99.1	57.5	88.4	87.4	115.7	119.0
October	88.3	99.1	57.5	86.4	78.8	115.7	119.0
November	88.3	99.1	57.5	86.4	75.5	115.7	119.0
December	88.3	99.1	57.5	85.4	75.6	115.7	119.0
Year	83.3	88.6	57.5	86.4	103.5	115.7	119.0
1947 January	88.3	99.1	57.5	86.4	76.9	115.7	137.4
February	88.3	99.1	57.5	86.4	79.1	115.7	137.4
March	88.3	99.1	57.5	86.4	81.7	115.7	137.4
April	93.5	99.1	57.5	86.4	81.5	132.5	137.4
May	93.5	99.1	57.5	86.4	101.0	132.5	137.4
June	93.5	99.1	57.5	86.4	105.6	132.5	137.4
July	93.5	99.1	57.5	86.4	136.8	132.5	137.4
August	99.5	100.5	57.5	86.4	111.8	132.5	159.3
September	101.7	100.5	105.0	86.4	95.9	132.5	159.3
October	106.1	120.3	105.0	113.9	91.5	132.5	159.3
November	106.1	120.3	105.0	113.7	110.0	132.5	159.3
December	109.1	120.3	103.3	113.7	119.9	132.5	159.3
Year	96.8	104.6	73.2	93.2	99.3	129.7	146.5
1948 January	109.1	120.3	100.3	113.7	123.6	132.5	159.3
February	107.6	120.3	100.3	119.0	123.4	132.5	159.3
March	104.7	120.3	96.8	117.3	116.9	132.5	159.3
April	104.7	120.3	98.0	117.3	127.6	132.5	159.3
May	105.7	120.3	98.0	117.4	146.1	132.5	159.3
June	99.5	111.4	98.0	117.4	185.3	132.5	159.3
July	100.0	111.4	98.0	117.7	160.9	132.5	159.3
August	100.0	111.4	98.0	117.7	98.2	132.5	159.3
September	99.1	111.4	99.7	117.7	79.0	132.5	159.3
October	99.1	123.6	99.7	119.5	80.8	132.5	159.3
November	98.0	123.6	99.7	119.5	80.1	132.5	159.3
December	98.0	123.6	99.7	119.5	80.3	132.5	159.3

Source: Dominion Bureau of Statistics, Ottawa.

TABLE 7—(Cont'd)

SELECTED WHOLESALE INDEXES FOR INDIVIDUAL ITEMS BY MONTHS,
SEPTEMBER, 1945—DECEMBER, 1948

(1926 = 100)

	Coffee	Cocoa Beans	Salt	Cotton Fabrics	Rayon Fabrics	Wool Cloth	Boots and Shoes
1939 Year	67.0	62.3	108.7	70.9	55.0	76.6	92.8
1935 - 1939	58.7	69.0	88.5	73.8	47.7	77.2	90.3
1945 September	109.6	160.5	130.6	82.5	68.9	104.1	108.9
October	109.6	160.5	130.6	82.5	68.9	104.1	108.9
November	109.6	160.5	130.6	82.5	68.9	104.1	108.9
December	109.6	160.5	130.6	82.5	68.9	104.1	108.9
Year	109.2	160.5	130.6	82.5	68.1	104.1	108.9
1946 January	109.6	160.5	130.6	82.5	68.9	104.1	108.9
February	109.6	160.5	130.6	82.5	71.6	104.1	110.7
March	109.6	160.5	130.6	91.5	71.6	104.1	110.7
April	109.6	160.5	130.6	91.5	71.6	112.6	110.7
May	109.6	160.5	130.6	91.5	71.6	112.6	110.7
June	109.6	160.5	130.6	91.5	71.6	112.6	110.6
July	109.6	160.5	130.6	91.5	71.6	112.6	112.9
August	109.6	160.5	130.6	91.5	71.6	112.6	112.9
September	109.6	160.5	130.6	91.5	71.6	112.6	114.0
October	109.6	160.5	130.6	91.5	71.6	112.6	114.8
November	109.6	160.5	130.6	91.5	71.6	112.6	114.8
December	109.6	160.5	130.6	91.5	71.6	112.6	117.1
Year	109.6	160.5	130.6	90.0	71.4	110.5	112.4
1947 January	129.6	160.5	130.6	91.5	71.6	112.6	117.1
February	129.6	160.5	130.6	119.2	71.6	120.0	125.5
March	129.6	160.5	130.6	119.2	85.3	128.2	125.5
April	129.6	377.2	130.6	119.2	85.3	136.3	127.9
May	129.6	377.2	130.6	119.2	85.3	140.1	129.2
June	129.6	377.2	130.6	131.4	85.3	142.5	129.2
July	129.6	377.2	130.6	131.4	88.1	144.7	129.2
August	144.6	505.6	160.5	131.4	88.1	156.4	130.8
September	144.6	505.6	160.5	131.4	88.1	157.5	132.7
October	144.6	823.4	160.5	131.4	88.1	159.5	156.7
November	144.6	727.1	160.5	152.6	94.7	159.5	167.1
December	149.6	679.0	160.5	154.7	94.7	159.9	167.6
Year	136.3	435.9	143.1	127.7	85.5	143.1	136.5
1948 January	151.0	706.3	160.5	154.7	94.7	165.3	167.1
February	149.4	679.0	160.5	157.5	94.7	184.7	171.4
March	147.8	648.8	160.5	157.5	94.7	183.9	171.4
April	147.5	615.3	160.5	157.5	97.1	183.9	167.1
May	147.0	558.3	160.5	157.5	97.1	185.5	164.0
June	147.0	675.6	160.5	157.5	97.1	186.8	161.7
July	147.2	723.9	160.5	157.5	97.1	188.8	161.0
August	147.6	744.3	160.5	157.5	97.1	199.5	161.0
September	147.6	663.9	160.5	163.6	97.1	199.5	161.4
October	150.1	662.2	160.5	163.6	97.1	199.5	161.8
November	152.8	658.8	160.5	163.6	98.8	203.5	161.8
December	152.3	549.9	179.0	163.8	98.8	203.9	161.8

Source: Dominion Bureau of Statistics, Ottawa.

TABLE 7—(Cont'd)

SELECTED WHOLESALE INDEXES FOR INDIVIDUAL ITEMS BY MONTHS,
SEPTEMBER, 1945—DECEMBER, 1948

(1926 = 100)

	Hides and Skins	Leather	Crude Oil	Fuel Oil	Gasoline	Ammonium Nitrate	Fertilizers
1939 Year	80.0	89.9	72.5	80.7	60.2	—	83.0
1935 - 1939	79.3	87.7	73.5	86.0	64.4	—	77.3
1945 September	97.0	111.9	90.0	93.4	63.4	74.7	83.7
October	97.0	111.9	83.8	93.4	63.4	74.7	83.7
November	97.0	111.9	83.8	93.4	63.4	74.7	83.7
December	97.0	111.9	83.8	93.4	63.4	74.7	83.7
Year	95.8	111.9	87.9	93.4	63.4	74.7	83.7
1946 January	97.0	111.9	83.8	93.4	63.4	74.7	83.7
February	97.0	111.9	83.8	93.4	63.4	74.7	83.7
March	97.0	111.9	83.8	93.4	63.4	74.7	83.7
April	97.0	111.9	86.7	93.4	64.9	74.7	83.7
May	97.0	111.9	86.7	93.4	64.9	74.7	83.7
June	97.0	111.9	86.7	93.4	64.9	74.7	83.7
July	97.0	111.9	78.9	93.4	64.9	74.7	83.7
August	97.0	111.9	89.8	93.4	64.9	74.7	85.3
September	97.0	111.9	89.8	93.4	64.9	74.7	85.3
October	97.0	111.9	89.8	93.4	64.9	74.7	85.3
November	97.0	111.9	94.2	93.4	64.9	74.7	85.3
December	97.0	111.9	94.2	93.4	64.9	74.7	85.9
Year	97.0	111.9	87.4	93.4	64.9	74.7	84.4
1947 January	97.0	111.9	94.2	98.7	66.1	74.7	85.9
February	118.0	131.0	94.2	98.7	66.1	74.7	85.9
March	118.0	131.0	105.2	98.7	66.1	74.7	85.9
April	118.0	131.0	105.2	109.3	70.6	74.7	85.9
May	118.0	131.4	105.2	109.3	70.6	74.7	85.9
June	118.0	131.4	105.2	109.3	70.6	74.7	85.9
July	118.9	131.4	105.2	120.0	70.6	89.7	89.0
August	118.9	131.4	105.2	120.0	70.6	98.0	97.0
September	118.9	142.2	105.2	120.0	70.6	98.0	100.9
October	174.7	198.3	114.1	120.0	70.6	110.4	103.4
November	180.6	200.5	114.1	132.7	74.1	114.6	105.0
December	180.6	200.5	136.1	132.7	74.4	114.6	105.6
Year	131.6	147.7	107.4	114.6	70.1	89.5	93.0
1948 January	173.4	197.0	136.1	153.9	80.9	106.4	103.8
February	153.5	193.0	136.1	153.9	81.7	94.1	101.2
March	124.2	180.1	136.1	153.9	82.4	94.1	101.2
April	139.5	179.9	136.1	153.9	82.4	94.1	101.2
May	145.9	179.9	136.1	153.9	82.4	94.1	101.2
June	159.1	179.9	136.1	153.9	82.8	94.1	101.2
July	164.7	184.1	136.1	153.9	82.8	94.1	101.2
August	161.7	184.1	136.1	153.9	82.8	94.1	105.2
September	156.0	178.9	136.1	153.9	82.8	94.1	105.2
October	153.4	177.2	136.1	153.9	82.8	94.1	105.2
November	163.0	177.2	136.1	153.9	82.8	101.7	109.7
December	156.2	179.1	136.1	153.9	81.7	101.7	109.7

Source: Dominion Bureau of Statistics, Ottawa.

TABLE 7—(Cont'd)

SELECTED WHOLESALE INDEXES FOR INDIVIDUAL ITEMS BY MONTHS,
SEPTEMBER, 1945—DECEMBER, 1948

(1926 = 100)

	Lumber	Pine	Spruce	Cedar	Fir	Prepared Paints	Nails
1939 Year	94.0	103.3	87.0	110.7	95.1	68.9	93.7
1935 - 1939	89.2	97.5	83.6	94.9	91.1	70.5	90.9
1945 September	160.5	149.1	179.5	175.8	144.4	76.3	93.7
October	160.5	149.1	179.5	175.8	144.4	76.3	93.7
November	160.5	149.1	179.5	175.8	144.4	76.3	93.7
December	160.5	149.1	179.5	175.8	144.4	76.3	93.7
Year	160.5	149.1	179.5	175.8	144.4	78.4	93.7
1946 January	161.9	149.1	181.8	181.8	144.4	76.3	93.7
February	162.5	149.1	181.8	186.3	144.4	76.3	104.5
March	162.5	149.1	181.8	186.3	144.4	76.3	104.5
April	172.1	160.4	188.4	198.9	156.0	76.3	110.6
May	172.1	160.4	188.4	198.9	156.0	76.3	110.6
June	172.1	160.4	188.4	198.9	156.0	76.3	110.6
July	170.3	160.4	188.4	185.3	156.0	76.3	110.6
August	170.3	160.4	188.4	185.3	156.0	76.3	110.6
September	170.3	160.4	188.4	185.3	156.0	76.3	110.6
October	172.5	160.4	188.4	201.6	156.0	82.5	110.6
November	179.2	160.4	188.4	253.2	156.0	82.5	110.6
December	179.2	160.4	188.4	253.2	156.0	82.5	110.6
Year	170.4	157.6	186.8	201.3	153.1	77.9	108.2
1947 January	189.5	160.4	193.6	321.2	156.0	99.1	110.6
February	193.0	160.4	193.6	348.4	156.0	99.1	110.6
March	193.0	160.4	193.6	348.4	156.0	99.1	110.6
April	193.0	160.4	193.6	348.4	156.0	99.1	110.6
May	211.2	160.4	193.6	350.5	232.0	99.1	110.6
June	215.9	173.8	208.2	309.8	232.0	99.1	126.0
July	217.5	173.8	208.2	316.6	232.0	99.1	126.0
August	221.8	173.8	208.2	336.9	232.0	99.1	126.0
September	223.6	173.8	208.2	350.5	232.0	112.8	126.0
October	253.2	201.9	218.4	388.0	298.8	112.8	133.7
November	257.3	201.9	228.4	388.0	298.8	112.8	133.7
December	260.1	201.9	228.4	388.0	310.4	112.8	133.7
Year	219.1	175.2	206.3	349.6	224.3	103.7	121.5
1948 January	258.8	201.9	228.4	374.4	312.7	112.8	133.7
February	258.4	201.9	228.4	360.8	317.3	112.8	133.7
March	254.8	201.9	228.4	333.6	317.3	112.8	133.7
April	256.3	201.9	228.4	333.6	317.3	112.8	133.7
May	264.4	233.3	228.4	333.6	317.3	112.8	133.7
June	265.9	233.3	228.4	333.6	317.3	112.8	133.7
July	266.8	233.3	228.4	340.4	317.3	112.8	133.7
August	272.8	233.3	228.4	340.4	342.7	112.8	150.6
September	273.7	233.3	231.5	340.4	342.7	112.8	150.6
October	287.2	233.3	231.5	358.7	390.2	112.8	150.6
November	287.2	233.3	231.5	324.7	390.2	112.8	150.6
December	282.5	233.3	231.5	315.7	390.2	112.8	150.6

Source: Dominion Bureau of Statistics, Ottawa.

TABLE 7—(Cont'd)

SELECTED WHOLESALE INDEXES FOR INDIVIDUAL ITEMS BY MONTHS,
SEPTEMBER, 1945—DECEMBER, 1948

(1926 = 100)

	Gluten Feed	Bran	Shorts	Oats No. 1 Feed	Vegetable Oils	Building Materials
1939 Year	61.0	78.2	77.5	80.2	63.6	89.7
1935 - 1939	66.7	85.2	84.8	79.3	70.0	87.9
1945 September	79.3	83.3	81.5	112.3	126.8	127.0
October	79.3	83.4	81.5	113.2	126.8	127.0
November	79.3	83.4	81.5	113.2	126.8	127.2
December	79.3	83.4	81.5	113.2	126.8	127.3
Year	79.3	83.4	81.5	112.3	127.7	127.3
1946 January	79.3	83.4	81.5	113.2	126.8	128.1
February	79.3	83.4	81.5	113.2	126.8	128.5
March	79.3	83.4	81.5	113.2	126.8	128.6
April	79.3	83.4	81.5	113.2	126.8	135.2
May	79.3	83.4	81.5	113.2	126.8	135.2
June	79.3	83.4	81.5	113.2	126.8	135.2
July	79.3	83.4	81.5	113.2	126.8	134.7
August	79.3	83.4	81.5	113.2	152.2	135.8
September	79.3	83.4	81.5	113.2	152.2	135.8
October	79.3	83.4	81.5	113.2	152.2	137.6
November	79.3	83.4	81.5	113.2	152.2	140.9
December	79.3	83.4	81.5	113.2	152.2	141.7
Year	79.3	83.4	81.5	113.2	137.4	134.8
1947 January	79.3	83.4	81.5	113.2	152.2	148.2
February	79.3	83.4	81.5	113.2	196.9	152.5
March	79.3	83.4	81.5	126.3	196.9	152.5
April	82.9	87.8	85.6	142.8	196.9	152.4
May	82.9	87.8	85.6	142.8	196.9	161.1
June	82.9	87.8	85.6	142.8	211.2	164.6
July	82.9	88.6	86.4	142.8	211.2	165.5
August	82.9	87.8	85.6	142.8	211.2	167.6
September	134.1	122.5	118.2	142.8	249.6	171.1
October	134.1	122.5	118.2	159.1	250.1	185.3
November	134.1	122.5	118.2	187.4	239.5	186.9
December	134.1	139.9	141.0	181.3	241.9	189.2
Year	99.1	99.8	97.4	144.8	212.9	166.4
1948 January	134.1	157.3	157.3	187.4	244.8	187.8
February	134.1	160.8	160.5	161.3	244.8	187.9
March	134.1	167.7	167.1	161.7	242.9	186.2
April	134.1	167.7	163.8	185.2	242.9	187.4
May	134.1	167.7	163.8	200.2	242.9	192.5
June	134.1	178.2	170.3	202.8	242.9	194.7
July	134.1	181.6	173.6	180.2	242.9	195.4
August	134.1	178.2	170.3	167.0	323.8	199.3
September	134.1	172.1	167.9	155.8	320.5	200.2
October	134.1	170.3	166.2	162.2	317.6	205.9
November	134.1	173.8	166.2	175.8	311.5	205.7
December	143.3	177.3	176.0	163.7	304.0	203.8

TABLE 7—(Cont'd)

SELECTED WHOLESALE INDEXES FOR INDIVIDUAL ITEMS BY MONTHS,
SEPTEMBER, 1945—DECEMBER, 1948

(1926 = 100)

	Structural Steel Shapes	Window Glass	Cement	Sand and Gravel	Brick
1939 Year	98.0	94.7	96.7	84.9	86.0
1935 - 1939	97.0	99.2	103.3	89.2	87.3
1945 September	121.2	162.7	105.1	88.4	103.2
October	121.2	162.7	105.1	88.4	130.2
November	121.2	162.7	105.1	88.4	109.1
December	121.2	162.7	105.1	90.2	109.1
Year	121.2	162.7	105.4	89.4	104.3
1946 January	121.2	162.7	105.1	91.4	109.1
February	121.2	162.7	105.1	91.4	109.1
March	121.2	162.7	105.1	91.4	109.1
April	138.9	162.7	105.1	89.6	109.1
May	138.9	162.7	105.1	90.8	109.1
June	138.9	162.7	105.1	90.8	109.1
July	138.9	162.7	105.0	90.8	109.1
August	138.9	162.7	105.0	90.8	109.1
September	138.9	162.7	105.0	90.8	109.1
October	138.9	162.7	105.0	90.8	118.0
November	138.9	162.7	105.0	90.8	118.0
December	138.9	162.7	105.0	99.2	124.1
Year	134.4	162.7	105.1	91.6	111.8
1947 January	138.9	162.7	105.0	99.2	124.8
February	138.9	162.7	107.6	103.9	124.8
March	138.9	162.7	107.6	103.9	124.8
April	138.9	162.7	109.6	98.6	124.8
May	138.9	162.7	109.6	98.6	128.0
June	138.9	162.7	109.6	98.6	128.0
July	138.9	170.6	109.6	103.5	128.1
August	138.9	170.6	112.5	103.5	128.1
September	138.9	170.6	112.5	103.5	128.1
October	149.9	170.6	112.5	103.5	128.1
November	149.9	170.6	112.8	107.0	128.1
December	149.9	170.6	117.7	112.3	128.1
Year	141.6	166.7	110.6	103.0	127.0
1948 January	149.9	170.6	118.2	112.3	128.1
February	149.9	188.9	118.2	112.3	128.1
March	149.9	188.9	118.2	112.3	128.1
April	149.9	188.9	121.3	119.2	128.8
May	158.7	188.9	123.8	123.0	129.7
June	158.7	188.9	124.8	127.4	131.4
July	158.7	188.9	124.8	127.4	132.6
August	158.7	188.9	124.8	127.4	132.8
September	158.7	188.9	126.1	127.6	139.1
October	158.7	188.9	126.1	127.6	139.1
November	158.7	188.9	126.1	127.6	139.1
December	158.7	188.9	126.1	131.1	139.1

Source: Dominion Bureau of Statistics, Ottawa.

TABLE 8

HISTORICAL RECORD OF COST-OF-LIVING INDEX AND MAIN GROUPS

A ANNUAL DATA, 1913—1947

(1935-1939 = 100)

Year	Total Index	Food Index	Rent Index	Fuel and Lighting Index	Clothing Index	Home Furnishings and Miscellaneous Index	Retail Prices Index (Commodities only)
1913	79.1	89.1	74.3	77.1	87.4	69.6	
1914	79.7	92.2	72.1	75.1	88.3	69.6	
1915	80.7	93.7	69.8	73.8	96.4	70.0	
1916	87.0	103.9	70.6	75.4	109.8	74.1	
1917	102.4	134.3	75.8	83.8	129.1	80.7	
1918	115.6	154.2	80.0	92.6	151.0	90.3	
1919	126.5	164.8	87.3	100.7	173.6	100.0	
1920	145.4	189.5	100.1	120.2	211.9	109.3	
1921	129.9	145.5	109.4	128.1	172.0	111.4	
1922	120.4	123.3	114.0	122.7	145.7	111.4	
1923	120.7	124.1	116.9	122.5	143.8	110.7	
1924	118.8	121.6	117.4	118.9	140.8	108.6	
1925	119.8	127.2	117.4	116.8	140.3	106.5	
1926	121.8	133.3	115.9	116.8	139.1	106.1	
1927	119.9	130.8	114.5	114.4	135.6	105.1	
1928	120.5	131.5	117.3	113.2	135.5	104.8	
1929	121.7	134.7	119.7	112.6	134.8	105.0	
1930	120.8	131.5	122.7	111.8	130.6	105.4	
1931	109.1	103.1	119.4	110.0	114.3	103.3	
1932	99.0	85.7	109.7	106.8	100.6	100.4	
1933	94.4	84.9	98.6	102.5	93.3	98.2	
1934	95.6	92.7	93.1	102.1	97.1	97.8	
						Home Furnishings Index	Miscellaneous Index
1935	96.2	94.6	94.0	100.9	97.6	95.4	98.7
1936	98.1	97.8	96.1	101.5	99.3	97.2	99.1
1937	101.2	103.2	99.7	98.9	101.4	101.5	100.1
1938	102.2	103.8	103.1	97.7	100.9	102.4	101.2
1939	101.5	100.6	103.8	101.2	100.7	101.4	101.4
1940	105.6	105.6	106.3	107.1	109.2	107.2	102.3
1941	111.7	116.1	109.4	110.3	116.1	113.8	105.1
1942	117.0	127.2	111.3	112.8	120.0	117.9	107.1
1943	118.4	130.7	111.5	112.9	120.5	118.0	108.0
1944	118.9	131.3	110.6	111.9	121.5	118.4	108.9
1945	119.5	133.0	107.0	112.1	122.1	119.0	109.4
1946	123.6	140.0	112.7	107.4	126.3	124.5	112.6
1947	135.5	159.5	116.7	115.9	143.9	141.6	117.0
1948	155.0	195.5	120.7	124.8	174.4	162.6	123.4
							95.9
							98.1
							102.0
							102.8
							101.0
							106.6
							114.9
							122.4
							124.5
							125.2
							126.2
							132.1
							148.8
							177.4

Source: Dominion Bureau of Statistics, Ottawa.

TABLE 8—(Cont'd)

HISTORICAL RECORD OF COST-OF-LIVING INDEX AND MAIN GROUPS

B MONTHLY DATA, SEPTEMBER, 1945—DECEMBER, 1948

(1935-1939 = 100)

Year	Total Index	Food Index	Rent Index	Fuel and Lighting Index	Clothing Index	Home Furnishings Index	Miscellaneous Index	Retail Prices Index (Commodities) only
1945								
September	119.9	134.2	112.1	106.7	122.2	119.4	109.5	126.9
October	119.7	133.3	112.3	106.7	122.4	119.4	109.6	126.5
November	119.9	134.0	112.3	106.6	122.5	119.4	109.6	126.8
December	120.1	134.3	112.3	107.1	122.5	119.5	109.6	127.0
1946								
January	119.9	132.8	112.3	107.1	122.6	119.5	110.9	126.3
February	119.9	132.5	112.3	107.1	122.7	120.1	110.9	126.2
March	120.1	133.1	112.3	107.2	123.1	120.4	110.9	126.7
April	120.8	135.1	112.3	107.2	123.2	120.7	111.0	127.8
May	122.0	137.7	112.6	107.2	123.7	122.1	111.5	129.5
June	123.6	142.1	112.6	107.2	124.3	122.4	112.1	132.1
July	125.1	144.2	112.6	107.2	126.4	125.1	113.7	134.4
August	125.6	144.7	112.6	107.2	127.6	127.0	113.8	135.1
September	125.5	143.2	112.6	107.2	129.6	128.4	113.9	135.0
October	126.8	146.5	113.4	107.3	130.2	128.8	113.9	136.9
November	127.1	146.6	113.4	108.6	131.1	129.2	114.1	137.3
December	127.1	146.4	113.4	109.2	131.2	129.4	114.1	137.2
1947								
January	127.0	145.5	113.4	109.0	131.5	129.8	114.7	136.9
February	127.8	147.0	113.4	109.1	131.9	130.9	115.5	137.9
March	128.9	148.7	113.4	109.1	133.1	133.6	116.0	139.4
April	130.6	151.6	113.4	109.1	136.9	137.2	116.3	142.2
May	133.1	154.9	115.4	116.2	140.0	138.6	116.8	145.2
June	134.9	157.7	117.8	116.7	142.4	139.8	117.1	147.4
July	135.9	159.8	117.8	117.3	143.2	142.5	117.2	149.1
August	136.6	160.6	117.8	118.6	145.5	143.7	117.2	150.2
September	139.4	165.3	117.8	121.1	152.0	147.4	117.5	154.7
October	142.2	171.3	119.9	121.9	154.2	149.9	117.6	158.5
November	143.6	173.6	119.9	122.6	157.0	151.4	118.2	160.6
December	146.0	178.7	119.9	120.3	159.3	154.9	119.8	164.4
1948								
January	148.3	182.2	119.9	120.4	161.2	158.4	122.6	167.1
February	150.1	186.1	119.9	120.1	165.1	159.9	122.8	170.0
March	150.8	185.9	119.9	121.0	169.9	161.2	122.8	171.0
April	151.6	186.8	119.9	121.3	172.9	161.9	122.9	172.2
May	153.3	191.2	120.9	122.7	173.6	161.9	122.9	174.6
June	154.3	193.9	120.9	124.3	174.8	162.0	122.7	176.4
July	156.9	201.3	120.9	124.5	175.4	162.8	123.1	180.4
August	157.5	202.6	120.9	127.7	175.9	161.4	123.4	181.3
September	158.9	203.9	121.0	128.5	179.9	164.2	124.4	183.5
October	159.6	205.4	121.0	128.8	181.0	165.1	124.4	184.6
November	159.6	204.7	121.0	129.0	181.5	166.0	124.6	184.5
December	158.9 ^a	202.0	121.7	129.1	181.5	166.2	124.6	183.2

a) Since June 24, 1942, additional taxes on tobacco products have not been reflected in the above indexes originally established for cost-of-living bonus calculations. December 1, 1948, cost-of-living index inclusive of all tobacco taxes was 159.6.

TABLE 9

SUB-GROUPS OF THE COST-OF-LIVING INDEX, 1939
SEPTEMBER, 1945, SEPTEMBER, 1947 AND SEPTEMBER, 1948

(1935-1939 = 100)

	1939	September, 1945	September, 1947	September, 1948
TOTAL INDEX	101.5	119.9	139.4	158.9
FOODS	100.6	134.2	165.3	203.9
Dairy Products	100.5	112.4	172.1	196.9
Eggs	98.3	153.8	167.6	185.3
Cereals	106.7	99.7	104.1	143.8
Meats and Fish	96.1	163.4	194.1	279.5
Dry Groceries	103.8	134.1	159.1	167.2
Vegetables	101.3	145.1	163.9	167.2
Fruits	100.9	148.6	159.6	158.6
RENT	103.8	112.1	117.8	121.0
FUEL AND LIGHT	101.2	106.7	121.1	128.5
Coal	100.1	118.6	143.3	160.7
Coke	97.3	124.1	150.1	171.5
Gas	101.9	105.1	104.9	100.1
Electricity	103.6	86.3	90.0	85.2
CLOTHING	100.7	122.2	152.0	179.9
Men's Wear	102.5	126.5	167.7	198.5
Women's Wear	99.1	122.7	144.2	167.3
Piece Goods	99.4	119.3	153.9	192.6
Footwear	100.2	112.5	132.3	160.9
HOME FURNISHINGS AND SERVICES	101.4	119.4	147.4	164.2
Furniture	102.5	127.9	170.3	187.8
Floor Coverings	100.7	119.9	136.1	147.9
Furnishings and Textiles	101.0	134.2	164.7	204.1
Hardware	104.3	127.5	162.5	181.7
Dishes and Glassware	104.5	122.7	168.9	174.4
Telephone	100.2	103.3	103.3	103.7
Laundry	99.6	102.9	116.2	131.8
Cleaning Supplies	100.6	107.6	138.4	163.8
Electrical Equipment	—	—	—	157.7
MISCELLANEOUS ITEMS	101.4	109.6	117.5	124.4
Health	101.0	109.4	119.1	131.1
Personal Care	102.1	112.0	129.7	144.7
Transportation	100.4	109.4	113.0	117.6
Recreation	103.9	116.9	128.0	136.8
Life Insurance	99.7	99.9	104.2	104.2

Source: Dominion Bureau of Statistics, Ottawa.

TABLE 10

INDIVIDUAL FOOD PRICES^a AND INDEXES

PRICES AT SEPTEMBER, 1948. INDEXES AT SEPTEMBER, 1945 AND SEPTEMBER, 1948

(AUGUST, 1939 = 100)

Commodity	Unit	Price at September, 1948 (cents)	Index August, 1939	Index September, 1945	Index September, 1948
Beef, sirloin steak	lb.	72.2	100.0	150.6	258.8
Beef, round steak	lb.	67.8	100.0	169.1	286.1
Beef, rib roast	lb.	65.5	100.0	166.3	284.8
Beef, shoulder	lb.	47.9	100.0	153.7	301.3
Beef, stewing, boneless	lb.	45.0	100.0	165.8	329.5
Veal, front roll, boneless	lb.	48.8	100.0	179.1	288.8
Lamb, leg roast	lb.	68.5	100.0	130.7	241.2
Pork, fresh loins, centre cut	lb.	66.3	100.0	142.0	243.9
Pork, fresh shoulder, hock-off	lb.	50.5			265.1
Bacon, side, fancy, sliced, rind-on	lb.	74.0	100.0	149.8	232.0
Lard, pure	lb.	35.7	100.0	167.3	313.2
Shortening, vegetable	lb.	41.2			286.1
Eggs, grade "A" large	doz.	65.2	100.0	167.2	209.4
Milk	qt.	17.4	100.0	94.5	159.6
Butter, creamery, prints	lb.	73.0	100.0	144.4	267.4
Cheese, plain, mild, $\frac{1}{2}$ lb.	pkg.	29.9	100.0	167.7	223.8
Bread, plain white, wrapped	lb.	9.5	100.0	110.5	150.8
Flour, first grade	lb.	6.2	100.0	126.2	187.9
Rolled oats, package	lb.	9.6	100.0	117.4	152.0
Corn flakes, 8 oz.	pkg.	14.8	100.0	98.9	160.9
Tomatoes, canned, $2\frac{1}{2}$'s	tin.	26.8	100.0	136.6	252.8
Peas, canned, 2's	tin	18.2	100.0	119.7	151.7
Corn, canned, 2's	tin	22.6	100.0	137.3	200.0
Beans, dry	lb.	15.1	100.0	138.8	296.1
Onions	lb.	7.2	100.0	139.1	146.9
Potatoes	15 lbs.	33.9	100.0	146.3	155.0
Prunes, bulk	lb.	19.8	100.0	123.4	173.7
Raisins, seedless, bulk	lb.	20.8	100.0	111.3	137.7
Oranges	doz.	33.9	100.0	160.9	115.7
Lemons	doz.	45.0	100.0	164.8	138.5
Jam, strawberry, in jar	lb.	24.8	100.0	114.3	151.0
Peaches, 20 oz.	tin	30.4	100.0	104.7	154.3
Marmalade, orange, in jar	lb.	20.0	100.0	121.6	147.3
Corn syrup, 2 lb.	tin	32.8	100.0	154.9	191.5
Sugar, granulated	lb.	9.7	100.0	135.5	149.2
Sugar, yellow	lb.	9.7	100.0	134.9	154.0
Coffee	lb.	62.4	100.0	132.1	184.6
Tea, black, $\frac{1}{2}$ lb.	pkg.	51.3	100.0	133.3	174.5

^a Prices taken at independent stores in 64 cities.

Source: Dominion Bureau of Statistics, Ottawa.

TABLE 11

PRICE INDEXES FOR COMMODITIES AND SERVICES USED BY FARMERS,
1926, 1939, AND AUGUST, 1945 TO DATE

(1935-1939 = 100)

A COMBINED INDEXES

	Composite Index ^a		Equipment and Materials	Living Costs	Taxes and Mortgage Interest	Wage Rates
	Living Costs (included)	Living Costs (excluded)				
1926	126.8	130.6	119.9	121.1	135.5	164.5
1939	99.4	99.3	95.7	99.5	101.1	110.3
1945	143.7	156.9	126.0	123.7	113.4	326.3
1946	139.7 ^b	149.7 ^b	126.8	124.7	117.2	275.0 ^b
January	145.6	158.7	127.9	126.1	—	325.0
April	149.8	162.7	129.4	130.5	—	343.8
August	147.9	158.3	132.2	132.3	119.8 ^c	303.1 ^b
1947	157.1	171.1	140.1	136.1	—	350.5
January	165.6	178.4	146.3	146.5	—	370.6
April	174.7	187.6	169.8	155.3	—	337.8 ^b
August	183.2	196.2	172.9	163.7	—	377.4
1948	189.2	202.3	202.3	169.5	—	398.4

a) See Dominion Bureau of Statistics publication "Price Indexes for Commodities and Services Used by Farmers", April, 1948 issue, for explanation of composite index and recent revisions in these series.

b) Seasonal drop in wage rates.

c) Preliminary.

B EQUIPMENT AND MATERIALS IN DETAIL

	Imple- ments	Ferti- lizer	Seed	Feed	Gasoline, etc. Oil and Grease	Building Materials	Hard- ware	Binder Twine
1926	97.6	129.4	130.2	136.4	127.7	114.0	104.0	184.6
1939	103.6	100.2	79.4	80.5	96.2	108.1	101.6	93.8
1945	115.1	112.9	135.5	128.1	114.4	174.2	119.3	126.4
1946	117.4	112.9	142.5	127.9	114.4	174.3	119.3	126.4
January	117.4	112.9	145.0	128.2	117.3	175.4	120.3	126.4
April	121.6	115.8	142.6	128.9	117.4	176.0	122.8	126.4
August	123.1	120.3	146.0	130.2	117.7	177.4	124.0	126.4
1947	125.4	120.3	168.9	142.7	122.4	178.8	128.2	226.2
January	125.4	120.8	189.9	146.5	123.6	204.0	136.9	226.2
April	138.8	131.2	252.2	202.4	134.0	217.7	142.4	226.2
August	138.8	131.2	241.2	201.3	137.0	222.6	156.1	294.0
1948	148.5	132.2	223.4	208.2	139.7	234.0	159.4	294.0

Source: Dominion Bureau of Statistics, Ottawa.

TABLE 12

INDEX NUMBERS OF FARM PRICES OF AGRICULTURAL PRODUCTS,
1945 TO DATE

(1935-1939 = 100)

Year	Annual Averages		Monthly Averages			
			1945	1946	1947	1948
1935	88.0	January	174.3	187.3	194.6	231.6
1936	96.9	February	175.7	188.4	195.1	231.4
1937	119.7	March	176.5	188.7	197.4	231.2
1938	105.0	April	177.4	190.9	197.8	233.7
1939	91.8	May	177.8	192.9	200.0	238.5
1940	96.8	June	179.5	195.3	203.3	248.5
1941	110.2	July	181.0	196.8	203.4	250.4
1942	133.1	August	186.8	196.6	205.7	255.8
1943	157.8	September	184.3	193.2	208.8	253.1
1944	172.3	October	183.4	192.8	208.6	
1945	180.7	November	185.3	193.2	211.8	
1946	192.5	December	186.4	193.9	217.9	
1947	203.7					

Source: Dominion Bureau of Statistics, Ottawa.

The prices used in computing the index are, as closely as can be determined, the prices which are actually received by farmers. Thus the storage, transportation, processing and handling charges which are not actually received by farmers are not included. On the other hand subsidies, bonuses and premiums which can be attributed to specific products are all included to date.

Advance and final equalization payments on oats and barley are included up to July, 1945. From that date the advance payments only are included until their discontinuance on March 18, 1947. The amounts paid per bushel on wheat participation certificates are included in the wheat prices as advised to date.

In compiling the index the fixed base weighted aggregative method has been used. Each commodity has been weighted by the annual average amounts sold in the five-year base period 1935-1939. No adjustments for seasonal variation of the prices have been made. The index is based upon prices for about 50 farm products which contributed approximately 90 per cent to the total cash income received by farmers from the sale of farm products during the base period. The series is subject to revision as more complete data become available. It is revised backward whenever announcements are made, such as those regarding wheat participation payments.

List of Witnesses

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